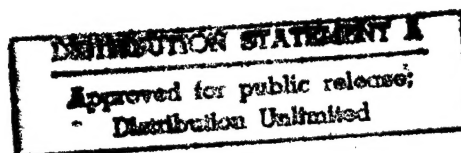




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# ***JPRS Report***



# **China**

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# China

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31 JULY 1989

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## Political Dissidents Send Open Letters

### Xu Liangying Interviewed

40050502a Hong Kong *CHIUSHIH NIENTAI* [THE NINETIES] in Chinese No 231, Apr 89 pp 21-23

[Long-distance telephone interview with Xu Liangying 6079 5328 5391, initiator of the 42-signatory open letter, on 16 March by Shi Hua 2457 5478: "Scientists Jointly Express Political Views for the First Time in History"]

[Text] The letter was drafted in mid-January. We talked to each individual for 1 to 2 hours. Only four or five persons did not sign it. Whether or not it is pressure is not determined by us. If leaders listen to these suggestions, the pressure issue would not even exist. The most important is the third clause, concerning the release of political prisoners. Senior scientists all feel that they should speak up for young people. Jiang Lijin [5592 7787 6855] mentioned the content of the letter at the Standing Committee meeting of the CPPCC. The response was not bad. Many people had similar ideas.

[Shi Hua] Professor Xu, did you start this letter before or after the 33-signatory open letter?

[Xu Liangying] We were much earlier. We started way back in mid-January. I have an old classmate by the name of Shi Yafeng [2457 7161 7364]. He used to be the director of the Lanzhou Glaciology and Permafrost Institute. He moved to Nanjing in recent years. In mid-January, he came to Beijing to attend a meeting. We were classmates in college. At the time he was an underground party member; so was I. We were very close. He came and we talked about national affairs. We were all very worried about our country's situation. We saw how the work style of the party had badly deteriorated. We have carried out the revolution since we were young. It made us feel very sad to recall how we used to carry out the revolution when we were young and to see how things have deteriorated today. So we came up with the idea of writing a letter to the central government to make a few suggestions. We also consulted with several other old classmates at Zhejiang University who also used to be underground party members. I drafted the letter and everybody helped collect signatures.

### Communist Party Members Account for More Than Half

[Shi Hua] Is it true that half the people who signed the letter are Communist Party members?

[Xu Liangying] Yes, more than half. Thirteen are from our Zhejiang University. Most of them were my classmates; one is my teacher, Wang Ganchang [3769 3227 2490]; another is Professor Yan Rengeng [0917 0088 6342, dean of studies of Zhejiang University. We feel very proud that 13 of them are from Zhejiang University.

[Shi Hua] Are most of these people in Beijing?

[Xu Liangying] Most of them are in Beijing; most are also party members.

[Shi Hua] Forty-two people have signed the letter. Was there any scientist you talked to who refused to sign?

[Xu Liangying] I talked to them individually, and with each individual, I spent about 1 to 2 hours. The overwhelming majority of those I talked to agreed with me and felt that it was very important to make these suggestions at a time like this. Only four or five people refused to sign the letter.

[Shi Hua] After 1 to 2 hours of talk, they still refused. Why?

[Xu Liangying] Some were frightened. They were afraid that signing the letter might hurt them personally or might be disapproved of by family members. Some people were very disappointed at the current situation and thought writing such a letter would not do any good.

[Shi Hua] Do you, Professor Xu, think it will do any good?

[Xu Liangying] I think that it should be useful.

[Shi Hua] Some opinions have been expressed many times. Take the educational fund issue, for instance. It is not that the central government does not know about it, but when it comes to the question of how the money should be spent....

### Opposing "Punishing Someone for What He Has Said"

[Xu Liangying] We are only reflecting how serious the situation is. For instance, entry-level professors now have to apply for financial subsidies. Some have committed suicide. This is too serious. The point is to have democracy. Since January 1989, newspapers have been carrying numerous articles publicizing "new authoritarianism" and openly announcing the intention to practice autocracy. This has made us very angry. Since 1989 is the 70th anniversary of the May 4 Movement and the bicentennial of the French Revolution, we think that we should launch a new democratic enlightenment movement. As it turned out, before we people at the bottom even began to promote democracy, newspapers had already given wide publicity to "new authoritarianism" and the practice of autocracy. This is very dangerous. We hope that leaders of the central government are level-headed and will not listen to the nonsense of these people. Listening to their nonsense can lead China to disaster, which we will not allow to happen. This is the basic reason for writing this letter.



[Shi Hua] In the third clause of your letter, you mentioned young people "who were punished for expressing different political views in words and writing." Are they political prisoners as referred to in the "33-signatory open letter?"

[Xu Liangying] Yes, they are political prisoners. After the "33-signatory open letter" brought up this issue, some people think that political prisoner is not an accurate term in China. For instance, Jiang Qing is also a political prisoner, but that means big trouble. In order to make things clearer and more exact, we used the phrase those "who expressed different political views in words and writing." In other words, we meant not to carry out literary inquisition. Amnesty may put an end to past problems, but it is not a basic solution. The basic solution is not to carry out literary inquisition.

[Shi Hua] With the upcoming sessions of the NPC and the CPPCC, domestic newspapers and leaders' speeches all recently stressed stability. They seemed to imply that practicing democracy and writing jointly signed letters would affect the stable environment needed for the reform and opening up. What do you, Professor Xu, think of this?

[Xu Liangying] My view is just the opposite. I feel that the only guarantee of stability and unity is democracy. Without democracy, stability is impossible. Practicing autocracy instead of democracy is bound to create instability among the people. Economic problems, official profiteering, and corruption will all sap the morale of the people. Under this condition, using autocratic and coercive measures to suppress different views is bound to create chaos. There is only one way to achieve stability and unity. That is to allow the public to speak. The government should tell the people what policy and measure it wants to adopt. If the people agree with the government's policy and measure, they will be willing to bear whatever difficulty or risk is involved. This is true, as seen in world history. Democratic countries can have stability, but countries without democracy cannot. This is my conclusion after years of studying history.

[Shi Hua] You mentioned the basic rights of citizens. Do you mean human rights?

[Xu Liangying] Yes.

#### **Whether It Is Pressure Is Not Determined by Us**

[Shi Hua] According to Chinese officials, open letters and jointly signed letters are meant to put pressure on the government.

[Xu Liangying] We wrote this letter to make suggestions "with our sense of social responsibility to the nation and the people and with our patriotic hearts." We hope that past mistakes can be corrected and avoided in the future. Our point of departure is love for our country, that of party members is love for the party. If leaders can hear

and accept our opinions, pressure would not even be an issue. If they think that their views are too different from ours, they might consider it as pressure. As far as we are concerned, we hope that they accept our opinions. We do not want to put pressure on them, so, whether it is pressure is not determined by us, but by whether leaders can listen to our opinions. Some senior scientists, who took no interest in politics in the past, cried when they heard me talk about some young people convicted for ideological issues. They think we should speak out for these youths. If leaders listen to our suggestions and release ideological prisoners, things would become very simple. What kind of pressure will there be? But if they refuse to release them, there would be pressure. So whether it is pressure is not up to us.

[Shi Hua] Do you think there will be retaliation against you for writing this open letter?

[Xu Liangying] I do not think there will be retaliation. Things are different now. It is not like the 1950's and the period of the Cultural Revolution. Judged by the whole situation of open policy and reform, plus the trend of the world and popular demand, I think there probably will not be any retaliation.

[Shi Hua] But what about making things hard for you, like forbidding you to go overseas?

[Xu Liangying] It is possible, but I am mentally prepared. When I was young, I joined the underground party and disregarded my personal interests, gains, and losses for our country and nation and for democracy. In 1957 I was branded as a rightist and lived like a peasant for 20 years after that. I have gone through so many things in my life, including what Mao Zedong referred to as the "five fear not's," so this is really nothing to me. I feel that we would have disappointed our country, people, and young people if we did not express our opinions at a time like this.

#### **The Letter Was Mentioned at the CPPCC Standing Committee Meeting**

[Shi Hua] Are there many people who share the same feelings as you?

[Xu Liangying] There are not very many. There are some at least among my old comrades in the past. One of them is 79 years old. When I told him that a certain young man was imprisoned for 10 years because of some articles he wrote, he was very upset. When I asked him to sign the letter, he said: "OK, I feel honored that you have asked." This is a party member with over 50 years of membership.

[Shi Hua] Who is he?

[Xu Liangying] Sun Keding [1327 0344 1353]. He used to belong to the New Fourth Army. During the liberation of Nanjing, he took over the Central Research Institute in the capacity of the New Fourth Army. His position then was very high. This person is very honest and straightforward.

[Shi Hua] I assume that there are some NPC deputies and CPPCC Committee members among the 42 people. Do you think that they might mention these issues at the NPC and the CPPCC meetings?

[Xu Liangying] There are three NPC deputies and five CPPCC Committee members. A CPPCC Standing Committee member among them mentioned the content of our letter at a CPPCC Standing Committee meeting three days ago. He said that the response was not bad and that many people's opinions were similar to ours.

[Shi Hua] Who is he?

[Xu Liangying] His name is Jiang Lijin [5592 7787 6855]. He is 70 years old.

[Shi Hua] What about other responses from society?

[Xu Liangying] Some people say that it is unprecedented in history for so many Chinese scientists to express political views together. It was unprecedented both before and after 1949, because scientists are generally not interested in politics.

#### **We Have To Speak Out for Young People**

[Shi Hua] Isn't it true that the third clause of the proposal, namely the issue on crimes related to thoughts, speeches, and writings, does not really concern scientists?

[Xu Liangying] What is special is that most people who signed the proposal feel that the third clause is the most important. They feel that we have to speak out for and protect young people.

[Shi Hua] When Jiang Lijin mentioned it at the CPPCC Standing Committee meeting, was there anybody against it?

[Xu Liangying] Not that I know of. I bumped into him the day before yesterday. He said the response was pretty good after he mentioned it.

[Shi Hua] So you do not think it would be useless?

[Xu Liangying] As far as I know, leaders are seriously considering these issues. To what degree they will accept these suggestions, we still do not know. So far, we have not heard that they think there is anything wrong with our letter.

[Shi Hua] Didn't the government say that it does not approve of the method of the open letter?

[Xu Liangying] We did not say that this is an open letter, although it is not a secret. We wrote it for leaders. We mailed it on 28 February. We will announce it to the outside after a while. When we announce it, we will not hold a press conference; neither will we distribute unsolicited copies. We will give it out if anybody asks for it. On the one hand, we hope to let leaders know; on the other hand, we also want society to know. We hope that China will have a democratic enlightenment movement to let the people know that they are the masters of the country. So it is also important for this letter to exert some influence in society, if is possible.

[Shi Hua] Will domestic newspapers and periodicals publish this letter?

[Xu Liangying] They probably won't. Under this situation, I know they won't.

[Shi Hua] I heard that you are writing a book called *On Democracy*; is it true?

[Xu Liangying] My wife Wang Laidi [3769 0171 2769] and I are working on it. But since the title of the book has already been used by two other people, it probably needs to be changed to something like *Democratic History and Theory*. We have written 70,000 to 80,000 words. It probably will be next year when it is done.

[Shi Hua] How is your health?

[Xu Liangying] Not too good. That is why it took me so long to complete the thing about the signed letter. It took two months. Of course, the 33-signatory letter was simpler. They agreed and they signed it. With my letter, I had to find and talk to people one by one for about 1 to 2 hours each.

[Shi Hua] Does the government treat your letter differently from the 33-signatory letter?

[Xu Liangying] It may react more favorably to our letter because most of the scientists who signed the letter have good jobs and are highly accomplished scientists. Nine of them are committee members of academic departments of the Chinese Academy of Sciences. The literary circle always complains, so the government may be more annoyed by them. The scientific circle has never expressed opinions like this, so leaders may give us serious consideration.

**Dai Qing Interviewed**

40050502b Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 231, Apr 89 pp 24-25

[Telephone interview with Dai Qing 2071 2532, one of the initiators of the 43-signatory open letter: "A Call Representing Justice," by Lang Lang 6745 6745 on 17 March]

[Text] Su Wei [5685 3555] felt he was deceived—how could they include Bing Xin [0393 1800] and Wu Zuxiang [0702 4809 4889] in "the group of Chen Jun" [7115 6511]? The meeting of Chen Kuide's [7115 1145 1795], SIXIANG JIA [IDEOLOGIST], was broken up—don't we even have the right to hold meetings? People are not allowed to say anything or express their wishes—it has gone too far.

*Editor's note: Dai Qing is a GUANGMING RIBAO reporter in Beijing. She has published many shocking feature stories in recent years. She is one of the initiators of the 43-signatory letter that was jointly signed by the third group of intellectuals on Mainland China. At our special request, her friend Lang Lang did a telephone interview with her on 17 March.*

[Lang Lang] Could you give us a brief introduction to the 43 people?

[Dai Qing] I don't know most of them. I know only about a dozen people. Su Wei knows most of them, but he ran away for fear that reporters may keep pestering him and calling him on the phone.

I know Xu Youyu [1776 0645 3342]. He is a philosopher, working for the Philosophy Institute. Shi Tiesheng [0670 6993 3932] is a writer. Zhang Shengyou [1728 0524 0645] is a prize-winning reporter. Wang Xin [3769 0207] is the deputy chief editor of WENXUE PINGLUN [LITERARY CRITICISM] and a senior scholar. Wang Xingzhi [3769 5887 0037] is a very old scholar. Liu Mingjiu [2692 7686 0046] is one of the best in the field of research on French literature. Su Guoxun [5685 0948 0534] has written many articles and studies on Marxism and Leninism. Cha Jianying [2686 1696 5391] is a novelist. Lin Gang [2651 1511] is the son of Lin Ruo [2651 5387], secretary of the Guangdong Provincial CPC Committee. He is an assistant researcher at the Literature Institute. Yan Jiaqi [0917 1367 0366] is well known to everybody. Zheng Yefu [6774 0048 1133] works for ZHISHI FENZI [INTELLECTUALS] magazine. Chen Kuide is also an initiator. He is the chief editor of SIXIANG JIA [IDEOLOGISTS]. Yuan Zhiming [6678 1807 2494] studies philosophy and was one of the script writers of *The River Elegy*. Li Ming [7812 7686] is a specialist in the study of history, ethics, or sociology. Wu Bin [0702 1755] is an editor of DUSHU [READING] magazine. Zhou Fucheng [0719 6534 2052] is a famous professor at Beijing University.

[Lang Lang] How did you three start this thing?

[Dai Qing] It was very interesting. Su Wei, Chen Kuide, and I started it. At first, I did not want to get involved. My name was not among the first two groups of signatures. I only wanted to cover their activities from an objective point of view as a reporter.

[Lang Lang] Some overseas reports say that you started this thing because you were angry at the way things were reported at home.

[Dai Qing] That is right. We decided within a very short period of time. It was about 13 March, Monday, when we decided to do it.

Su Wei decided to start this petition because he felt he had been deceived by the media. He was on vacation in Guangzhou when the 33-people letter came out. News reports gave him the impression that it was a very boring thing started by some stupid kid. He did not know who signed the letter until he returned to Beijing. How could they include Bing Xin and Wu Zuxiang in the "group of Chen Jun"? He felt he had been deceived. So he decided to do something like this.

[Lang Lang] What about Chen Kuide? Was it because the meeting of his magazine SIXIANG JIA was broken up?

[Dai Qing] Yes, it was. Chen Kuide was very mad then. Don't we even have the right to hold meetings? So he went to Su Wei and decided to sign.

[Lang Lang] Did you decide to start it before or after all these developments?

[Dai Qing] At first I had no intention to join them at all. I did not even want to join after all these developments. Why did I need to join anyway? But after the day the meeting of DUSHU magazine was broken up, I heard the report on Yuan Mu's [5913 2606] speech. Then, Su Wei came to me with the letter and I signed it.

[Lang Lang] What was in the report of the speech?

[Dai Qing] We signed the letter on 14. It was not too late to withdraw our names when Yuan Mu's speech was released, but none of us did.

Reports on Yuan Mu's speech varied in different quarters. GUANGMING RIBAO's report was better and more in line with the policy. They say that when reporting on the speech, the Foreign Language Institute claimed that 33 people took foreigners' money; Beijing University said that there was very complicated political background; and the Advanced Party School said that the leader of the activity should be dealt with seriously. It is ridiculous to say such things. They have to have proof to say so! I signed immediately because I was very mad and knew it was wrong to do what they did. People were not even allowed to say a few words and express their wishes. It had gone too far! That was why I signed.

Yuan Mu's speech also mentioned "foreign forces." This suggestion is also too sweeping, absolute, and groundless. I disagree.

[Lang Lang] Are most of the 43 people social scientists?

[Dai Qing] Yes. Most of them are writers, philosophers, ethics scholars, and historians. They are mainly young and middle-aged scholars.

[Lang Lang] Terms used in your letter are rather different. For instance, there is no such term as "political prisoners." Instead, you say "pardon detained personnel according to usual practice." Do you think such wording is more appropriate?

[Dai Qing] In fact, the wording of this letter is not that different. I am also a layman when it comes to legal terms.

Yuan Mu said there is no political prisoner in China. He may say so because there is a clause in the criminal law on "counterrevolutionary crime." If counterrevolutionary criminals are not considered political prisoners, what kind of prisoners are they? This is an issue worth careful studying. But in the current situation, it is senseless to quibble over the term political prisoners. As far as legal interpretation is concerned, people who signed the letter are going to lose the battle because the Supreme People's Court has the final power of legal interpretation. Its interpretation is definitely identical to that of the government. Our side will inevitably suffer a crushing defeat in legal interpretation. However, our letter is a call to justice. It represents a kind of spirit.

[Lang Lang] Does your letter have anything to do with the upcoming NPC and CPPCC meetings?

[Dai Qing] Of course, our letter was written for these two meetings.

[Lang Lang] Do you hope to achieve essential progress at these two meetings?

[Dai Qing] I don't think so. But I still have to say it, for at least I won't let myself down this way. Will I be considered as a human if I am afraid to say a few words like these?

[Lang Lang] Some overseas media think that since intellectuals on both sides of the straits echo each other, now is the turning point for accelerating democratic progress in China. What do you think?

[Dai Qing] I don't think so. I think we are still far away from that point.

**Who's Who of 42-Signatory Open Letter**  
40050502c Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 231 Apr 89 pp 26-28

[Article by Fan Dainian 5400 1486 1628, "Brief Introduction to Those Who Signed the '42-Signatory Open Letter'"]

[Text] Qian Linzhao [6929 5259 3564] was acting secretary of the Central Research Institute before the liberation. Wang Ganchang [3769 3227 2490] is Li Zhengdao's [2621 2398 6670] teacher. Guo Xingxian [6665 5281 0341] used to be the deputy director of the Biological Sciences Department of the Chinese Academy of Sciences [CAS]. Xue Yugu [5641 4416 6253] is former director of the Microbiology Institute. Zhang Zhaoqing [1728 2507 1987] and Wu Guozhen [0702 0948 4394] are scientists who came from Taiwan, studied in the United States, and returned to the mainland in the late 1970's.

**Editor's Note:** The author of this article is a deputy chief editor of Natural Dialectics Newsletter of the Chinese Academy of Sciences, currently working as visiting professor in the Philosophy Department at Boston University of the United States.

The new enlightenment movement of China, which is marked by science and democracy, set off another new upsurge on the eve of the 70th anniversary of the May 4 Movement. Following the open letter signed by 33 noted writers and philosophers including Bing Xin [0393 1800], Xiao Gan [5618 0051], Zong Pu [1350 3877], Zhang Dainian [1728 1486 1628], and Li Zehou [2621 3419 0624], we heard that another open letter was signed by 42 intellectuals, mostly scientists.

When I read this letter far away from my country, I could not hold back my excitement. I seemed to be able to hear the heartbeat of 42 sincere and patriotic elite scientists and intellectuals in China. They have inherited the fine tradition of Chinese intellectuals of "worrying before everybody" and displayed great justice. In the letter, the 42 elite scientists and intellectuals made an objective, comprehensive, and scientific analysis of the situation in Mainland China. The four suggestions they made hit right on the current problems. They suggested that China "realize political democracy," "earnestly guarantee the basic rights of citizens prescribed in the Constitution, especially freedom of speech, publication, and press," "release all youths who have been sentenced to prison or reform through labor for ideological problems," and "increase educational and scientific research funds and raise intellectuals' salary." These suggestions represent the aspirations of the broad masses of people in the country. They are the only way out of the current predicament for Mainland China. We hope that Chinese leaders and members of the CPC Central Committee, the NPC Standing Committee, and the National CPPCC Committee can make a prompt decision to adopt these four suggestions and promote "the cause of modernization under the guidance of ideological liberation and the



basic national policies of opening up and reform" to greet the 70th anniversary of the May 4 Movement and the 40th anniversary of the PRC's founding.

Among the 42 scientists, scholars, and writers, some are my teachers, some are my senior classmates, many are famous people whom I have admired and respected, and some are my intimate friends whom I have known and worked with for many years and with whom I have gone through thick and thin. Here I would like to make a brief introduction to overseas friends of 32 petitioners I am familiar with.

### Two Leaders Are First-Class Scientists

Professor Qian Linzhao is a committee member of academic departments of CAS and a world-known crystal physicist. Before the liberation, he was the acting secretary of the Central Research Institute. He is also a famous physics historian. His research on Mohist writings and Chinese ancient physics is highly praised by Li Yuece [2621 4766 3844]. He served as the first and second chairman of the board of the Chinese Society of Scientific and Technological History and worked for many years as the vice president of the Chinese University of Science and Technology. He has managed to build the University of Science and Technology into one of the best universities in China by giving proper respect to people at lower levels and gathering outstanding middle-aged scholars who have been treated unfairly such as Fang Lizhi [2455 0536 0037], Zeng Kencheng [2582 5146 2052], and Xiang Zhilin [7309 1807 6689]. He once served concurrently as director of the Research Department of Science History at the University of Science and Technology. He once invited me to work as a part-time professor in that department. He is an honest and sincere person and a meticulous scholar. He deserves to be our model.

Professor Wang Ganchang is a committee member of academic departments of CAS and a world-famous nuclear and particle physicist. During the War of Resistance Against Japan, he was Li Zhengdao's teacher in the Physics Department of Zhejiang University. Representing China, he once worked as the deputy director of the Joint Nuclear Research Institute in (?Dubuna) [2629 1580 4780] in the Soviet Union. The research group he headed discovered antisigma-minus hyperon. He is the first Chinese scientist to discover fundamental particles. He once served as the vice minister of the Second Ministry of Machine-Building Industry and deputy director of the 9th Yuan. He has made major contributions to the development of atomic and hydrogen bombs and underground nuclear tests in China. In recent years, he has been engaged in research on nuclear fusion and high-power lasers. He is Xu Liangying's [6079 5328 5391] and my teacher. After we were mistakenly labeled as rightists, he still treated us as usual—he gave us kind attention and endless warmth.

### Initiators Are Shi Yafeng [2457 7161 7364] and Xu Liangying

Shi Yafeng is also a committee member of academic departments, was once the deputy director of the Department of Earth Sciences of CAS, director of the Lanzhou Branch, and director of the Glaciology and Permafrost Institute. He makes frequent trips to snow-covered mountains and glaciers to carry out on-the-spot investigations. Since he is busy with scientific research, usually he is not very active in political activities. It is very unusual for him to be the initiator of this open letter.

Xu Liangying graduated from the physics department of Zhejiang University in Meitan of Guizhou in the early 1940's. He was one of Wang Ganchang's favorite students. Later, when he was a teaching assistant at Zhejiang University, he taught physical experiments in our class. He joined the underground CPC in 1946 and led students' movements in Hangzhou in Zhejiang after 1946. He became director of the editorial department of the Science Bulletin of CAS in 1952. At the time, Wang Rong [3076 1369] and I both worked as editors under him. During the elimination of counterrevolutionaries in 1955, he was purged because he was then linked to "Hu Feng elements." Later he was transferred to the Natural Dialectics Group of the Philosophy Institute to do research work. In 1957 he was branded a rightist. In 1958 he lost his job and went to rural areas and lived like a peasant for over 20 years. When he was in the rural areas, he began to translate *The Collected Works of Einstein*, which encountered many setbacks and was not published until the end of the 1970's. After the rightist problem was corrected in 1978, he became a researcher at the History of Natural Sciences Institute under CAS. In recent years, he and Li Peishan [2621 0160 3790] jointly wrote *The History of Science and Technology in the 20th Century*. He is a scholar of great achievement in the modern history of science in China. He has always shown great concern for the cause of political democracy in the motherland. In early 1987, he, Liu Binyan [0491 6333 7159], and Fang Lizhi jointly started an academic seminar on the historical experience of antirightist movements, which put him under attack. It is reported that he has not been feeling well lately and is suffering from arrhythmia. But he is still busy rushing about for the open letter. This selfless spirit has always been his style.

### A Group of Outstanding Natural Scientists

Professor Guo Xingxian is an agricultural scientist educated in the United States. He worked for many years as deputy director of the academic Department of Biological Sciences under CAS and has done a great deal of practical organizational work for the development of biological sciences in the past 30 years or so in Mainland China. He often visits Xinjiang to engage in scientific research. He is usually very quiet, honest, and sedate.

Xue Yugu is former director and researcher of the Microbiology Institute under CAS. She is Guo Xingxian's wife. She is a shrewd and experienced woman scientist who not only is proficient in professional work but also has organizing ability.

Professor Ye Duzheng [2814 4648 2973] is a committee member of academic departments, once served as vice president of CAS, and is a world-known meteorologist. He has made great contribution to the development of meteorological sciences and undertakings. He is also an honest, down-to-earth, and meticulous scholar.

Huang Zongzhen [7806 1350 3914] is a biological editor at the Science Publishing House. Before the liberation, he was the chief editor of KEXUE SHIDAI [THE ERA OF SCIENCE]. Now he is an advisor-editor of KEJI DAOBAO [SCIENCE AND TECHNOLOGY HERALD]. He has always been very helpful to other people. Ever since he was mistakenly labeled a rightist in 1957, he has been very cautious in political activities.

Professor Hu Shihua [5170 0013 5478] is also a committee member of academic departments. He is one of the founders of mathematical logic in China and a meticulous scholar. The fact that today there are many talented people in the field of computer software research is inseparable from Mr Hu's foundation.

Zhu Zhaoxiang [2612 0340 4382] once worked as a professor in the department of mechanics and president of Ningbo University. In the mid-1950's, he helped Qian Xuesen [6929 1331 2773] and Guo Yonghuai [6753 3057 2037] to prepare for the construction of the Mechanics Institute.

Zhou Mingzhen [0719 2494 6966] is also a committee member of academic departments, a world-famous paleoanthropologist, and once served as director of the Vertebrate Paleontology Institute under CAS.

Xu Guozhi [6079 0948 1807] is a committee member of academic departments and a noted operations and systems scientist. In the 1950's, he and Qian Xuesen simultaneously returned to China. He has made great contributions to the development of operations and systems sciences in China.

Sun Keding [1327 0344 1353] is a researcher and mathematician at the Mathematics Institute.

Wang Rong [3076 1369] is a professor in the physics department at Zhejiang University, a physicist of theoretical particle physics, and teacher of doctorate classes. He is busy all year round with scientific research and teaching. He is honest and sincere, and always has a sense of justice.

Liu Yuanzhang [0491 3293 1728] is a systems scientist and once served as deputy director of the Systems Science Institute.

Mao Yushi [5403 0060 6524] is an associate researcher of the American Studies Institute of the Chinese Academy of Social Sciences (CASS), studies economic issues, and attended Harvard University.

Hu Jimin [5170 3444 3046] is a committee member of academic departments and a nuclear physicist, once served as dean of the Department of Technical Physics of Beijing University, and has contributed to personnel training for the development of atomic and hydrogen bombs.

Yan Rengeng [0917 0088 6342] is a committee member of the Academic Department of Philosophy and Social Sciences. He is a famous economist, wrote the *Chinese History of Textile Industry*, and once served as deputy director of the Economics Institute.

Zhang Xuansan [1728 1357 0005] used to work for the State Economic Commission. He is one of the editors and translators of the *Collected Works of Einstein*.

#### Noted Scholars of Human Studies

Du Ruji [2629 3067 2813] is probably a professor at Beijing University of Political Science and Law. In recent years, he translated *Open Society and Its Enemies* by Karl Popper. It was said that he was mistakenly labeled as rightist in 1957 and he has become very cautious ever since.

Yu Haocheng [0060 3185 2052] is a famous jurist and social activist. He was mistakenly labeled as rightist in 1957 and was kept in solitary confinement for a long time during the period of the Cultural Revolution. He is one of the few intellectuals who have been the bravest and most steadfast in criticizing Mao Zedong, advocating political reform, and promoting the ideological liberation movement since 1979. The Mass Publishing House, where he is the director, has overcome numerous restrictions to publish books including, *The Life-Giving Spring Breeze and Rain (Records of 30 Years of Unjust Verdicts)* and the *Gulag Archipelago* by Solzhenitsyn. The journal FALU ZIXUN [LEGAL CONSULTATION], of which he is the chief editor, has also played an important role in exposing violations of human rights and promoting improvement of the legal system. Because of all this, he has become a thorn in the conservatives' flesh. In 1986, he was finally removed from the position of director of the Mass Publishing House. It is reported that recently he was again deprived of the leadership of FALU ZIXUN by a literary hooligan.

Zhang Xianyang [1728 7359 2254] is a famous Marxist theorist and political science expert, working as a researcher at the Marxism and Leninism Institute of the Chinese Academy of Social Sciences. He is one of several theorists who are hated by conservatives in the party for advocating that Mao Zedong's mistakes be thoroughly criticized at the "theoretical discussion meeting" in early

1979. In August 1987, he, Wang Ruoshui [3769 5387 3055], and Wu Zuguang [0702 4371 0342] were "persuaded to withdraw" from the CPC. However, it has not made him change his mind and he is still very active in political activities and theoretical writings.

Li Honglin [2621 3163 2651] is a noted political critic. In 1980, he published three theses in RENMIN RIBAO under the title "What Kind of Party Leadership Do We Need?" to discuss "four basic principles" and the mistakes Mao Zedong committed in this regard between 1949 and 1979. (because of pressure from conservatives, the fourth thesis, "What Kind of Marxism and Leninism Do We Need?" was not published by RENMIN RIBAO.) He has thus been considered a heretic and restricted in writing and speaking activities. During the "antibourgeois liberalization" movement in 1987, he was relieved of the duty of president of the Fujian Provincial Academy of Social Sciences. His book *Theoretical Twists and Turns* was banned, but has remained a best seller on the black market for many years.

Bao Zhunxin [0545 6690 0207] is a researcher at the History Institute and once worked as chief editor of DUSHU magazine and first chief editor of the "Walk To the Future" series. He has contributed to the ideological liberation of Mainland China in recent years.

Shao Yanxiang [6730 3601 4382] is a noted poet. In recent years, he exerted broad influence with his trenchant and profound essays on Mainland China. In 1984, he was elected to the presidium of the China Writers Association by many provincial and municipal delegates at the 4th Congress of the China Writers Association. He is one of the few writers on the mainland who is still upright and outspoken after being mistakenly labeled as rightist in 1957.

Wu Zuguang is a noted writer. He was unfairly treated during the antiliberalization period.

Wang Laidi [3769 0171 2769] is a researcher at the Contemporary History Institute of CASS, specializing in the history of the May 4 Movement. She is Xu Liangying's wife.

#### Taiwan Scholars Returned to the Mainland in Recent Years

Ge Ge [2047 7245] is a physics professor in the research department of the Beijing Petroleum Institute. He translated the monumental work *The Complete Works of Niels Bohr* all by himself. He is the authority on the study of Bohr. In 1988, he visited the Bohr Research Institute in Denmark for research purposes. According to a letter he sent me from Denmark in February, he was going to return to Beijing on 24 February. I was surprised to see that he signed the letter on the 26th. He is multitalented and good at writing inscriptions on bronzes and stone tablets. "Ode to Noble Orchid," which he wrote, is highly praised by Mr Qian Zhongshu [6929 6988 2579].

Liu Liao [0491 6697] is an astrophysics professor at Beijing Normal University. In 1957 he was mistakenly labeled as rightist.

Zhang Zhaoqing is a researcher in the physics department of CAS. He is a Taiwan scholar, educated in the United States, and returned to the mainland in 1979.

Wu Guozhen is a researcher in the Beijing chemistry department of CAS and a deputy to the National People's Congress. He is a Taiwan scholar educated in the United States who returned to the mainland in the late 1970's.

Cai Shidong [5591 6108 2639] is a researcher in the physics department of CAS. It seems that he is originally from Taiwan. He returned to the mainland from the United States to engage in scientific research after the Cultural Revolution.

Xiao Shuxi [5618 3219 3556] is reportedly a woman researcher in the Development Biology Institute of CAS who also returned in recent years.

Zhou Liquan [0719 4409 0356] is a researcher at the Institute of Philosophy of CAS and director of the board of the Chinese Society of Logic. During the Cultural Revolution, he, Ge Baoquan [2047 1405 0356], and I operated boilers together. He is interested in politics and has a clear mind, but he is very cautious and seldom expresses his views in public.

Liang Zhixue [2733 1807 1331], also known as Liang Cunxiu [2733 1317 4423], is a researcher at the Institute of Philosophy, specializing in Hegelian philosophy. In 1957, he was mistakenly labeled as rightist. We are friends in adversity—we went through the reform-through-labor program together.

I am not familiar with the other eight people who signed the letter. But we can assume that they are all outstanding scholars in different fields of study. They are not well known to the public because they are not political activists. I hope those who know them will introduce them.

Judged by the above introduction, those who signed this letter are people who have made major contributions to the study of natural sciences, philosophy, and social sciences, to publication, and literary creation. They are usually not very enthusiastic about political activities, but this time they were serious, sincere, and earnest when they wrote the letter to Chinese leaders to make appeals. This shows that China's democratic movement has been further deepened and widened. The CPC gained political power by holding high new democratism and winning the trust and support of Chinese people. I hope that Chinese leaders will recall historical experience, realize today's irreversible trend of democracy in the world, and adopt the four proposals of the open letter

to realize political democratization and make new contributions to the cause of modernization in China. Then Chinese people will be very fortunate.

10 March 1989, Boston

### Neauthoritarianism Defended, Rejected

#### Transition Role Seen as Valid

40050457 Beijing JINGJIXUE ZHOUBAO  
[ECONOMICS WEEKLY] in Chinese 26 Mar 89 p 7

[Article by Ding Ningning 0002 1337 1337: "Neauthoritarianism as a Transition to Modernity"]

[Text] I think Tolstoy once said that if a majority of people need God, then God will be created even if it did not exist. But if a majority of people do not feel a need for God and you say to them, "You really need God," you will only invite a round of condemnation. Neauthoritarianism is like an owl that has taken to the air prematurely. As a result, its advocates have been called "the bastards of freedom and democracy." Be that as it may, the defenders of democracy have failed to convince us that the "silent majority" will definitely choose democracy over autocracy after years of social disorder. On the one hand, they recognize that "to achieve modernization, any nation must go through a developmental stage in which economic freedom and political autocracy exist side by side." On the other hand, they stress the unique nature of Chinese society, arguing that it does not have the basic preconditions for entering that developmental stage. They also call for a "highly efficient and honest hard government that abides by the rule of law," but they have failed to show us how, in the absence of authority, such a "hard government" can be established. With their rich imagination, democracy fighters seem to believe that, although it does not have a tradition in the rule of law, is economically backward, has an undereducated populace, and lacks the prerequisites for entry into the developmental stage where economic freedom and political autocracy achieve a balance, a superpower may yet emerge from traditional authority to rational authority through political democratization. Preoccupied with political reform, the democratic faction has not bothered to enlighten lesser mortals like us with an explanation of how this transition can come about. In the history of human civilization going back thousands of years, mankind has endured the agony of autocracy for long periods. What it finds unbearable is short periods of social upheaval. Even during the French Revolution, social anarchy lasted only a few short months. Garbed in a splendid robe, the executor of the will of the revolution sowed the seeds of revolution across Europe. The legal code, celebrated for its protection of human rights and private property, was also named for an emperor. Neauthoritarianism was hardly a historical accident. In the transition from tradition to modernity, Oliver Cromwell of England, Napoleon of France, Bismarck of Germany, Emperor Meiji of Japan, Peter I of Russia, and Mao Zedong of China have all left

clear footprints on history. Even the Americans, who sing the praises of freedom, irrationally call George Washington "father of the nation." While historians have found some of these people controversial, even their harshest critics have tempered their passionate attacks with a degree of awe and respect.

In contrast, the record of democracy in history is less commendable. The eloquent Socrates perished at the hands of the citizens of Athens with their strong tradition of democracy. His death poses this compelling question to future generations: Does the majority have the right to kill someone over a difference in beliefs? This question, seemingly so simple today, had bewildered mankind through the millennia and was not resolved until Voltaire successfully defended Calais. Still, history was stained with blood. Condorcet, Madame Roland, Danton, and Desmoulins all died under the tricolor banner of "liberty, equality, and fraternity." Had Napoleon not aimed his guns at the Assembly, it would have been hard to imagine the bloodshed within the democratic camp coming to an end. It was a democratic election that catapulted the chieftain of fascist tyranny, Hitler, to power. Could the unprecedented Cultural Revolution have occurred without proletarian mass democracy? People who abhor "freedom flirting with autocracy" should not forget a well-known saying by a democracy fighter a few years ago, "Democracy minus civic liberty can only lead to tyranny by hooligans."

The transition from traditional society to modern society is much harder than the changeover from one feudal dynasty to another. To establish a new dynasty in the mold of the old one, one can indeed borrow and adapt from the latter. But new social norms and laws are entirely at odds with old habits and traditional moral principles. We cannot create a new modern society by piecing together fragments of the old society. What is needed is a lot of constructive work, including the training of a new generation with modern ideas.

Thus, Huntington points out that the overthrow of a traditional autocratic regime is often followed, as a transition, by a period of vulgar politics because the prerequisites for civil democratic politics are not yet in place. So-called vulgar politics is actually neauthoritarianism. In this sense, neauthoritarianism is the midwife of modern democratic politics. The minimum requirement for theoretical research is logical consistency. "I love the truth, but I love democracy even more." Gentlemen, please consider this carefully: How can a society which has not even known autocratic (elitist) democracy skip the stage of neauthoritarianism and directly enter civic democracy?

All arguments that China can bypass the stage of vulgar politics cannot withstand close scrutiny. "China has a highly centralized political tradition." "As long as the question of ownership remains unresolved, political and economic dualism cannot be completed." "There is a



strange symmetry between centralization and decentralization." "The masses, having gone through democratic enlightenment and reform, are making democratic demands." "Internationally, there is a current of democratization." All this proves two things, that the Chinese people have begun to make political demands and that Chinese society is still not equipped to take the plunge into civic democratic politics. In recent years democracy fighters have done many things that benefit Chinese modernization, the most important of which is to continue the tradition of the May 4th Movement and invite Desmoulins and Condorcet to come back. However, on no account should they mistake ideological enlightenment for political reality. There is still a long way ahead before the "rubber stamp" is hardened. The new democratic revolution began the drive for economic modernization in China and has achieved great success. But the Cultural Revolution has taught us that even the advanced proletarian party must receive remedial training in modern civilization, primarily civil liberty and commodity economics. There are deep-seated social reasons for the re-emergence of neoauthoritarianism. Economic structural reform has now entered a difficult stage. Conflicting reform measures and economic policies designed to achieve quick payoffs are being punished by the laws of economics. Any hope that we can overcome the economic difficulties and do away with the dual structure soon has turned out to be wishful thinking. The divided theoretical community cannot reach a compromise on how to rectify the economic environment, restore economic order, and push reform forward. It is against this backdrop that neoauthoritarianism was born. However, that there is an objective need for authority does not mean that conditions exist for the creation of an authority, particularly neoauthoritarianism. Without the support of an authority, advocates of neoauthoritarianism have come under attack from the democracy fighters, on the one hand, and are coldshouldered by the people in power, on the other. In addition, they are blamed for returning to the past, probably in order to expedite reform. To the politician, neoauthoritarianism is something that can be done but not talked about. Either the advocate has an ulterior motive, or he is out of his mind. The taste of bitter love is something the advocate must experience for himself.

"I love democracy, but I love the truth even more." Neoauthoritarianism advocates do have some truth on their side, namely that the commodity economy is not opposed to all forms of centralization. History abounds with examples. One of Bismarck's achievements was the creation of a customs union in Germany at a time when it was littered with duchies. China's comprador bourgeoisie took shelter behind the foreigner. Their direct economic goal was to avoid "interest" exploitation layer upon layer. That the product economy can automatically develop into a modern commodity economy in a fragmented market is a mere fantasy. The motto of the commodity economy is free trade, which requires uniform market rules. On the other hand, measures intended to delegate power and allow localities and

enterprises to retain profits do not spontaneously develop into market regulations and do nothing to provide the accumulation necessary for national economic development. Mention centralization and some people immediately equate it with a return to the old system. Under these circumstances, we will only remain bogged down in the chaos of the primitive commodity economy for years to come. In China, a society characterized by the absence of a capacity for self-organization, the centralization of administrative power is perhaps the only means of breaking down regional barriers and bringing about a unified market. People who dare to express their true feelings even though they know full well that their sentiments will not be reciprocated at least display a tough masculinity. In addition to putting an end to blind worship, the Cultural Revolution also led to a lack of civic-mindedness. This is the basis on which neoauthoritarianism is founded. It is also the problem it is now facing. The democratic enlightenment movement will bear a bumper crop. Arguments involving different opinions is what stimulates academic progress. If nothing else, neoauthoritarianism will put an end to the current monotony that prevails in the academic world beneath a veneer of excitement of liveliness and force Chinese intellectuals of courage and vision to consider this question long and hard: What must we do to prevent this long-suffering nation of ours from again disintegrating into disunity? An economic theoretical worker who ventures into the political arena is courting disaster. But in a corrupt social atmosphere where everybody is for himself and God is for us all, if I don't go to hell, who will? Why shy away from something that may advance academic research and revive the national spirit? May the owl of neoauthoritarianism rise above narrow personal interests and reignite the spirit of man.

#### Shortcomings of Neoauthoritarianism

40050457 Beijing GONGREN RIBAO in Chinese  
17 Mar 89 p 3

[Article by Guo Sujian 6753 5685 1696: "China's Salvation Lies in Political Democratization, Not Neoauthoritarianism"]

[Text] In the press and at seminars recently, some people have been advocating neoauthoritarianism. They argue that to overcome the current crisis, China must have a powerful autocratic machinery and that Chinese economic reform and modernization depend on an "enlightened dictatorship" and "centralized politics." In my opinion, this thesis is totally unfounded. It does not constitute a novel formula to "save the nation."

1. The shift from the traditional product economy to a commodity economy has resulted in drastic readjustment and changes in the interests of all levels of society. Because political structural reform has failed to keep pace with economic reform, and because the power structure, operating mechanisms, and functions of the old system have not been overhauled in time to meet the needs of the new commodity economy, the result is an

imbalance in power, a loss of macroeconomic control, and economic disorder. The abuse of public office for personal gain, extortion, bureaucratic profiteering, and other corrupt social phenomena are some of the more conspicuous expressions of the participation of power in commodity exchange—money and power trading places—resulting from the imbalance in power and the lack of effective supervision over and limits on power. The tens of thousands of assorted administrative companies all over the nation are the product of the fusion between government administration and enterprise management and the improper power structure and operating mechanisms of the old system. The old authority has not disappeared. What the loss of macroeconomic control and economic disorder tell us is that the government is doing things that it should not do, while leaving undone what it should do, that it is still wedded to traditional administrative tools and planned management, that it has not set up a really effective market management system, and that administrative power has not been put under effective supervision and restraint. A scramble is on between the regions to outdo one another. They go in for haphazard development and casually expand the scale of extrabudgetary capital construction. They duplicate projects and are shockingly wasteful. Their shortsighted investment behavior has resulted in investment and demand explosions. Regions set up economic barriers against one another and engage in unprecedented, ferocious competition for raw materials, making the rational allocation and optimal organization of resources and the readjustment and rationalization of the industrial structure difficult and painfully slow. The macroeconomy got out of hand and the confusion in the field of circulation has been exacerbated, putting enterprises under unbearable pressure. Since the reshaping of the microeconomic basis and the formation of new economic operating mechanisms are impeded, the goals of reform—improved management, optimized structure, and increased efficiency—have not been realized. On the contrary, the numbers of economic operating links and levels have increased, as have the conflicts and friction among them. As one system replaces the other, gaps or loopholes appear and order dissolves into chaos. Thus phenomena like social corruption, inflation, disorder, decline in agricultural output, basic industries falling behind, and educational backwardness do not arise from a loss of "authority." Nor do they necessitate the creation of a new "autocratic system." Instead they call for continuous reform, a property rights revolution, and political structural reform.

2. There has been resistance to democracy and calls for dictatorship or autocracy in economically backward countries and other latecomers to industrialization in modern times. From Yuan Shi-kai to Jiang Kai-shek, modern China took the road of autocracy and dictatorship without, however, ultimately advancing the cause of modernization or freeing China from partition and plundering by foreign powers. In the end, these dictators became autocrats and traitors to the people. The lesson is clear: dictatorship goes against the tide of history and

will only cast China back under the yoke of feudal autocratic rule, stiffening popular resistance. The upshot is that a dictator must reap what he has sown in the final analysis.

The autocratic system in Western societies rests on a democratic tradition and laissez-faire economics. The politics of centralization, strongman rule, and neoauthoritarianism in newly industrialized countries in East Asia and Latin America in the course of industrialization are founded on laissez-faire economics. A rising middle class that is increasingly powerful economically, politically, and culturally may bring about a successful transition from neoauthoritarianism to democratic politics. China, however, is not thus equipped. China is a traditional society dominated by a traditional economic structure and value system. Historically, autocracy has been the archenemy of freedom and democracy. The so-called "honeymoon between autocracy and freedom" or "courtship between autocracy and freedom" are totally unknown. Such "courtship" is mere wishful thinking on the part of those who advocate neoauthoritarianism. Like servant girls, freedom and truth are appendages of autocratic authority. The prereform Chinese economy was a traditional product economy. It was a highly centralized system where government administration and enterprise management were combined. All social resources were centrally controlled. Politics was in command of economics. All political, economic, and cultural operations were nonsocialized. To introduce neoauthoritarianism in this kind of society that lacks a democratic tradition historically and is founded on a traditional economic structure is, in effect, to practice autocracy of the feudal patriarchal variety. It would only lead to the revival of the old system. A decade of painstaking reform will then go down the drain. In no way is it comparable to authoritarianism in the Western tradition or the neoauthoritarianism of the newly industrialized countries in East Asia and Latin America. It is old-style authoritarianism, perhaps in a new disguise. During the transition from product economy to commodity economy, this kind of authoritarianism will never produce social results that authoritarianism under laissez-faire economics can produce. What it can lead to is unbridled power, political corruption, and the politics of mediocrity. In the end, the economy will regress to the old era of isolation, which will seriously impede the development of the commodity economy and modernization.

3. According to the sociological and political teaching of Max Weber, China today is generally in the transitional stage from the "charismatic" mode to a society under the rule of law. This is an unusual period in history and must develop into another form of society. There is a certain need and rationale for "elitist politics" in this kind of society during the transitional stage. But "elitist politics" requires charismatic leaders with their own special appeal and popularity. "Elitist politics" also requires a particular social psychology. In other words, to be such a leader, a person must be endowed with a remarkable and

extraordinary personality and strength. "Elitist politics" also requires public so drawn to its vision of the good life that it is willing to blindly admire and follow a leader with an extraordinary personality and capability, even giving up their lives for a great objective. Unfortunately, this kind of charismatic leadership and the era it represents are gone forever. Charismatic leadership and the social psychology that goes with it simply do not exist today. At stake here are some vital questions: What gives rise to "elitist politics?" What sustains it? What will guarantee a successful transition from traditional society to modern society (one under the rule of law) in China?

During a sustained period of development in peacetime, autocracy, "enlightened autocracy," and similar forms of rule will often result in government by the mediocre or by people preoccupied with routine matters and of a bureaucratic frame of mind. At the same time, innovative and talented reformers will be stifled by this kind of personal centralization of power and arbitrariness. Under democracy, everyone will become a mere cog in the bureaucratic machine, losing his spiritual independence and creativity. How then can Chinese reform and construction place its hopes on the centralization of power?

The only right choice in Chinese politics is to steadfastly push ahead with political democratization as the commodity economy develops. To begin with, we must overhaul the leadership for social progress through reform. In such fundamental aspects as organization, power structure, operating mechanisms, functions, work methods, and motivation, we must gradually transform the leadership totally so that it becomes a new structure. They will become leaders who will establish sound political parties, leaders who will be independent from society and yet remain under social supervision. They will be the social activists and leaders who will emerge from flourishing socialist democratic politics. Only on such a democratic political basis can "elitist politics" develop and grow to spearhead political democratization in China.

#### **Discourse on Practical Materialism**

HK0107074889 Beijing RENMIN RIBAO in Chinese  
26 Jun 89 p 6

[Article by Lin Jian 2651 0494: "Practical Materialism and Man as the Subject"]

[Text] The category of practice has not only an epistemological, but also an ontological meaning. More and more people are becoming aware of this. There are some people who think that, in contrast with the "natural ontology" propounded by old materialism, the ontology of Marxist philosophy is in fact a kind of "practical ontology" or "practical monism." The writer of this article considers that this theory can stand. The problem is what kind of understanding we have of the theory.

Recently, there has been a representative opinion which states that the "ultimacy" of practice does not carry the meaning of "being the origin of all things," that it exists only as a philosophical, logical starting point and as such, it is the axis upon which philosophical thinking converges. I think it is obvious that this opinion runs counter to Marx's specific principle that logic should be unified with history. True, the category of practice is the axis upon which Marxist philosophical thinking converges, and moreover it is the starting point for Marxist philosophical and logical structure. But is not this the practice which serves as a logical starting point, precisely also the practice, before everything else, of history? Had it not been the case, how could practice have been the starting point for logic? In the opinion of the present writer, from a historical, or an etiological point of view, the primary basis for establishing "practical ontology" lies with the fact that practical ontology does have the meaning of "being the origin of all things." For the whole sentient world is a derivative from the history of human practice. This is shown in the fact that the natural materials we face are no longer primitive natural materials, but anthropomorphic natural materials transformed by human labor or practice, stamped with the imprints of human elemental power. They are now the results and products of human history. It is also shown in the fact that history is nothing other than a history of creations and formations through human labor or practice. Without human practice and creation, there would not be "the naturalness of history and natural history," much less human society and its history. As was pointed out by Marx: "This kind of activity, this kind of continuous, sentient labor and creation, this kind of production constitutes the profoundest foundation of the whole existing sentient world."<sup>1</sup> Precisely because human labor and practical activities constitute the profoundest foundation for the whole existing sentient world, the history of human labor is the key to understanding the mystery of human history. Therefore, only Marxist philosophy, which understands things "according to their original faces and the way they are brought about," can take the category of practice to be its logical point of departure.

The emergence of practical materialism means also a firm establishment of human subjectiveness in the sentient world, that is to say, a firm establishment of man as a subject in Marxist philosophy. Or, we may say, it is a firm establishment of the philosophical principle of subjectiveness. Of course, concepts such as subjectiveness or the principle of subjectiveness cannot be understood the way some people understand it—by drawing an "equal" sign between subjectiveness, or the principle of subjectiveness, and subjective activity, or the principle of activeness. Since practical materialism sees human sentient activities as the profound foundation for the whole sentient world, which it sees as a result or the work of human sentient activities, then by way of corollary man is established as the subject of practice, and the subjectiveness of man is evidenced or reflected in objects or works created by man himself. Advance along the path of practical materialism, and people will acquire a

whole new philosophical vista. In their eyes, Marxist philosophy will no longer be one without a subject. Displayed in front of us is a man who is not only the subject of anthropomorphic objects, but also a subject which creates society and history. In particular, in the historical conception, the categories of productive forces and productive relationships will cease to be things unrelated to human activities. Productive forces will be shown as "the productive forces of the subject," and productive relationships, those of the historical subject.

In practical materialism, through the commissions and omissions of the principle of subjectiveness, the category of labor will come to be understood in a broad context. In a narrow context, labor is understood as an activity and a medium, that is, labor is the activity and medium in which man and nature interact, and in this interaction labor factors (for example nature) are not included. Engels said in *The Functions of Labor in the Transformation From Apes to Human Beings*, "Political economists say labor is the origin of all kinds of wealth. In point of fact, it is labor plus nature that is the origin of all kinds of wealth. Nature provides materials for labor, which turns materials into wealth." Here Engels understood labor in the narrow sense of the word. That is, when the natural world is not included in the category of labor, then labor, together with nature, will constitute the origin of the world. But in the wide sense of the word, the category of labor is understood as the unity of labor activities and labor factors, as a dynamic system in which the three elements of laborer, labor factors and the object of labor are united. The labor factors are included, and nature as the object of labor is also included. Practical ontology understands the category of labor in the widest sense, and nature as the object of labor is subsumed in the category of labor. Therefore, practical materialism not only critically absorbs the rational parts of natural ontology, but also transcends and overcomes its historical limitations.

Marxist practical ontology unifies dialectics and materialism in the highest degree. Marx considers that the practice of labor anthropomorphizes nature, which is then stamped with human thoughts and will, and that labor causes tremendous change in nature—and this is ontological dialectics. But the tremendous change brought about by the creative functions of human practice can only change the state, structure, and nature of the natural things, not their objective real nature. The anthropomorphized nature still occupies a prior status—this is ontological materialism. In this way, the ontological dialectics and ontological materialism are unified on the basis of Marxist practice theory.

Engels said: "Spinoza: the thing is the cause unto itself—but it makes explicit the interactions." He also said: "the ultimate cause—matters and their inherent movements."<sup>2</sup> Spinoza's concept "the thing is the cause unto itself" is not only materialistic but also dialectical. But Spinoza's materialistic-dialectic theory of nature was not thorough enough. For in the real world, the

matter-object interacts with the spirit-subject through practice and, therefore, the cause for the development of matter-object (including the nature-object) lies not only in the interactions of the matter itself and in its inherent regularity of movement, but also in the active transformation done on the matter by the subject (man), which effects tremendous change in the matter-object. Therefore, a radical materialistic and dialectic theory of nature should not only perceive the causes of the matter-object itself, but also the interactions between the matter-object and the subject (man), and the active transformation done on the matter-object by the subject (man). Therefore, without the practice theory there can never be a genuine materialistic, dialectic theory of nature. A theory of nature without the practice theory will never be complete, whereas a theory of nature with the practice theory will be a radical materialistic, dialectic theory of nature, because practical materialism admits of the prior status of nature, the interactions in nature itself and its inherent regularity of movement; on the other hand it admits also the tremendous transformational power of human practice on nature.

Marx's epoch-making contribution was that he introduced practice not only to the theory of knowledge, but also ontology, not only to the conception of history, but also the theory of nature, and thereby he built up a new materialistic philosophical system with the category of practice as the center. The category of practice runs through Marxist philosophical system. Its logical point of departure is labor. Labor created the world. Its ontology is practical ontology, whose object of study is the real world created by practice. Its theory of nature is practical theory of nature, which studies the anthropomorphized nature. Its history is practical conception of history, which studies human society. Its theory of knowledge is practical theory of knowledge, which studies the character, structure and recognition of the subjectiveness of man. Its logical ending point is the land of freedom. Human practice will create a communistic society which is a land of freedom. The logical structure of practical materialism should pursue the principle of unity between logic and history, and develop along the line of the negative of the negative, in which the contradictions between the subject and object germinate, develop and finally are resolved into unity. Practical materialism is a Marxist philosophical system composed of practical ontology, practical theory of nature and practical theory of knowledge, and all of them, ontology, theory of knowledge, theory of nature and conception of history, unite in the highest degree of materialism and dialectic method on the basis of the theory of practice.

#### Footnotes

1. *Selected Works of Marx and Engels*, Vol 1, p 1.
2. *The Natural Dialectics*, 1971 edition, pp 209, 221.

**Categories and Handling of  
'Counterrevolutionaries'**

*40050574a Hong Kong MING PAO in Chinese  
15 Jun 89 p 1*

[“Counterrevolutionary Elements’ Have Been Dealt  
With According to Three Different Categories”]

[Text] Informed sources have revealed that the authorities are dealing with “counterrevolutionary elements” according to three categories. The first category includes important intellectuals who instigated the rebellion—professors and lecturers who laid plans and plotted strategies—and student leaders who organized the hunger strike in Beijing and organized students to come from other parts of China to participate in the movement. This category also includes leaders from various organs, units, and organizations who participated in marches. After these people are arrested, all of their co-conspirators are investigated, and special effort made to uncover

evidence of instructions from a “behind-the-scenes orchestrator,” or of connections with foreigners. The second category includes workers and citizens who set up barricades, burned army vehicles or busses, impeded the army from entering the city, battled with the troops, and cruised around the city passing messages. Following arrest, these people are being executed. The third category includes people who have spread rumors, posted Hong Kong newspapers, listened in secret to radio reports and spread their contents, attacked the Party, the government, the army or its leaders, harbored “counterrevolutionaries,” or failed to report what they know about illegal activities. These cases are being handled with differing degrees of severity according to their individual merits, the primary objective being to cut off information and prevent the influence of the anti-Party and antigovernment activities from spreading. Authority has been granted to shoot on the spot anyone who is seen committing a crime or who resists arrest.



## NATIONAL AFFAIRS, POLICY

### Analysis of Hong Kong's Future Role in National Development

HK1807122089 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 4, 20 Apr 89 pp 64-70

[Article by Feng Bangyan 7458 6721 1750 of the Southeast Economic Information Center, draft revised in January 1989: "The Role of Hong Kong in the Course of China's Modernization"]

[Text] Following the gradual development of China's opening to the outside world, Hong Kong has played an increasingly important role in the opening up, reform, and economic development of China, and especially of the coastal regions. How to fully bring into play Hong Kong's advantages and functions has become an important topic of research in the process by which China moves towards modernization.

#### I

In 1979, China decided to implement in Guangdong "special reforms and flexible measures" and to establish special economic zones in Shenzhen and Zhuhai, which are near Hong Kong and Macao. Therewith, Chinese-Hong Kong relations entered a stage of overall development and Hong Kong truly become an important pivot and bridge by which the Chinese mainland was linked to the international market.

1. Hong Kong has become the most important entrepot port for China in its development of foreign trade.

From the beginning of the 1950's till the end of the 1970's, China was cut off from the international community in terms of economic dealings. At the same time, Chinese-Hong Kong economic relations were maintained at the level of ordinary commodity trade, manifested mainly as unidirectional trade dealings whereby the mainland transported grain and raw materials to Hong Kong. Even in this period, Hong Kong was a major export market and funds source for the Chinese mainland.

During the last 10 years, two obvious changes have occurred in Chinese-Hong Kong trade relations: 1) There has been a great increase in the volume of Hong Kong commodities entering the mainland. In 1978 the value of Hong Kong products entering the mainland was only HK\$80 million [Hong Kong dollars], but by 1987 this had increased to HK\$27.87 billion. The market share of Hong Kong products in the mainland market has grown from 0.2 percent to 14.3 percent, and the mainland has become the second-biggest export market for Hong Kong products. 2) There has been a big increase in entrepot trade. In 1978, the value of mainland products transiting Hong Kong was only HK\$3.66 billion, but by 1987 this had grown to HK\$84.27 billion. Also, the value of mainland goods transiting Hong Kong as a proportion of

mainland goods sent to Hong Kong rose from 34.5 percent to 73.1 percent. In the same period, the value of foreign goods transiting Hong Kong en route to the mainland rose from HK\$210 million to HK\$60.17 billion. The value of goods supplied by or taken in by China as a percentage of Hong Kong's total transit trade grew from 29.3 percent to 79.0 percent.<sup>1</sup>

The main factors giving rise to these changes were: 1) In recent years, China has accelerated development of its foreign trade. Because the majority of China's export products are primary products and medium- or lower-grade finished products, and because the relatively small Hong Kong market moved toward saturation, without breakthroughs in product structure or quality, it was difficult to accomplish much more. However, following the development of Chinese-Hong Kong economic relations, through the use of Hong Kong's international sales channels and excellent communications, transport, and financial service systems, the pace at which China's export products entered the world market greatly accelerated. According to statistics, in 1987 about a fourth of China's total value of exports transited Hong Kong on their way to other markets.<sup>2</sup> 2) The shift of Hong Kong manufacturing industries to the mainland and the great development of processing and assembly businesses in the Zhu Jiang delta in Guangdong has meant that traditional trading forms have experienced sudden development and there has been a transition from purely commodity trade to capital-technology trade. Thus, equipment and raw materials from Hong Kong or that have transited Hong Kong and that are sent to the mainland, as well as products that have been processed or assembled in the mainland and transit Hong Kong on their way abroad, have greatly increased. According to an estimate by the HANG SENG ECONOMIC MONTHLY, in the value of goods which have transited Hong Kong in the last few years, each year an average of 20 percent has come from processing businesses.<sup>3</sup> 3) Indirect trade between the mainland and Taiwan and South Korea, through the intermediary of Hong Kong, has also seen dramatic development. According to statistics, between 1978 and 1987 the amount of trade between the mainland and Taiwan using Hong Kong for transit rose from HK\$220 million to HK\$11.82 billion, a growth of 52.7 times.<sup>4</sup> The above situations show that Hong Kong's importance as a traditional foreign exchange earning base for the mainland has seen a relative decline, but that it has seen a great strengthening of its role as a bridgehead and transfer point in the development of the Chinese mainland's foreign trade. At the present stage, in a situation where the mainland is just opening up, information does not flow freely, and the market is not clear, Hong Kong's role has great significance in the development of international markets and the gradual establishment of the mainland's own international sales network.

2. The movement of Hong Kong industry to the mainland has promoted development of an externally oriented economy in the open coastal areas.

The movement of Hong Kong industry to the mainland began in the early 1980's and has today reached an unprecedented scale. According to an estimate in a survey report by the Hong Kong Trade Development Council, by the first half of 1988, Hong Kong business interests had established in Guangdong Province 2,400 to 2,700 directly invested enterprises (including solely funded, jointly funded and cooperative operation enterprises), with 480,000 to 540,000 employees, and actual investment of \$2.9-3.2 billion (in the third quarter of 1988). Further, of the 13,000 processing and assembly enterprises established in Guangdong, about 80 percent involve Hong Kong business interests in supplying materials for processing or assembly, with employees numbering 850,000-1,200,000, and actual investment in excess of \$1.8 billion. From 1979 to 1987 Guangdong Province received about \$2 billion in processing fees, and in 1987 alone received \$500 million.<sup>5</sup> China and Hong Kong are gradually moving toward a division of work whereby "the shop is in the front and the workshop is at the back." The Hong Kong factory operators have their headquarters, including purchasing departments, operations departments, and planning departments in Hong Kong, and these are responsible for raising funds, accepting orders from abroad, product planning, quality control, packaging, and sales. Meanwhile, they cite their labor-intensive procedures or production lines in the Zhu Jiang delta in Guangdong or other open coastal regions, so as to be able to make use of the comparative advantages of these areas in terms of labor and land resources. These areas have thus become major processing and production bases for Hong Kong.

The basic reason for the formation of this situation where "the shop is in the front and the workshop is at the back" is that the comparative interests of China and Hong Kong have a strong interdependency. Hong Kong has a developed banking system, rich financial resources, a wide international market, and flexible information feedback. Also it has a very strong capacity to adjust to the changes in international market demand. However, in recent years it has been faced with a shortage of labor and the pressure of rising wage and land costs, and thus a structural readjustment of industry has been carried out whereby labor intensive industries or work processes have been shifted. The Zhu Jiang delta and other open coastal areas are short of funds, their markets are narrow, technology is backward, information does not flow freely, and their greatest advantage lies in their cheap labor and land resources. The comparative interest advantages were combined under the motivation of China's policy of opening to the outside world and the guidance of the market mechanism. As far as Hong Kong is concerned, this combination has expanded its industrial base, meaning that it has a period of respite before it completes its own industrial pattern shift, and, to a certain degree, this has alleviated its labor shortage, cost increases, and other problems. It has also increased the competitiveness of Hong Kong's products in the world market. As far as the mainland is concerned, this combination provides an avenue by which to employ several

million surplus laborers in the villages of the open coastal regions. This has meant that labor and land resources and other production factors that were long left idle under the closed economic structure could be quickly mobilized, forming immediate production capacity and economic benefits. More important, this meant that these regions obtained foreign exchange and funds and they drew in large volumes of advanced or suitable technology and equipment, thus promoting the rise of township and village enterprises, a switch in the economic structure, and the development of an externally oriented economy. This division of work situation where "the shop is in the front and the workshop is in the back" has seen a new trend. That is, from cooperation between the mainland and Hong Kong, there has been further development to cooperation among the mainland, Hong Kong, and Taiwan, and thus the middleman role of Hong Kong has been further strengthened. Figures show that more than 45 percent of the shoe factories in the north of Taiwan have, through Hong Kong, set up factories in the mainland. Last year there was a great growth in the number of Taiwan business concerns establishing factories in Fujian, as well as a great growth in the amount of funds involved, exceeding the sum of the figures for the previous 8 years. The Hong Kong-Zhu Jiang delta cooperative model will, through Hong Kong's intermediary role, develop into a Taiwan-Fujian cooperative model and, clearly, there are good development prospects. The idea of the so-called "Chinese economic circle" is actually a forward-looking view or idealization of this economic relationship.

### 3. Hong Kong has become a major channel by which China draws in foreign funds.

In the last few years, following the swift development of Chinese-Hong Kong trade and economic division of work, Hong Kong has become an important channel by which China draws in foreign funds. This is manifested as:

A. Hong Kong is the biggest investor in the Chinese mainland. According to statistics from the Ministry of Foreign Economic Relations and Trade, at the end of 1987, of the 10,008 enterprises in which foreign investment had been approved, Hong Kong and Macao investors had invested in 8,570, or 85.7 percent of the total. Of the \$21.96 billion foreign funds negotiated, Hong Kong and Macao investors were responsible for \$14.26 billion, or 65 percent of the total. Of the \$8.5 billion in foreign funds actually used, the Hong Kong and Macao investors were responsible for \$4.3 billion, or 50.6 percent of the total.<sup>6</sup>

B. The credit advanced by Hong Kong financial organs to nonbank customers in the mainland, has grown dramatically. From the HK\$100 million amount outstanding at the end of 1979, this figure had grown to HK\$23.2 billion in 1987.<sup>7</sup>

C.. Hong Kong, as the syndicated loan center for the Asia-Pacific region, has become a fundraising arena for large-scale projects on the mainland. According to statistics, just from 1984 to July 1987, the syndicated loans arranged in Hong Kong for the Mainland totaled HK\$26.21 billion yuan.<sup>8</sup>

D. The Hong Kong securities market has started to become an important arena in which the Mainland raises funds. The form of raising funds through the issue of bonds has already taken off and, seen from the long term, there are good development prospects for large mainland enterprises and Chinese-funded enterprises based in Hong Kong to gain listing on the stock exchange.

Further, there has also been overall development realized in other areas of cooperation between China and Hong Kong, areas including transport, communications, tourism, and information. The swift development of economic relations between China and Hong Kong have also strengthened Hong Kong's international economic position and Hong Kong has become the major springboard by which international capital enters the Chinese mainland.

## II

Following the swift development of Chinese-Hong Kong economic relations and the close exchanges between the personnel of the two sides, Hong Kong, as a successful model for economic development in the Asia-Pacific region and as a community with a highly developed modern commodity economy and fairly complete legal system, has had an increasingly obvious role as a model and as a catalyst for China and especially for Guangdong and the open coastal regions. These roles are now gradually developing in two areas:

1. The pounding of and osmosis in the original traditional economic model by market economy factors, which are gradually increasing as a result of the drawing in of foreign funds.

In a certain sense, the economic activities that have been produced as a result of the drawing in of foreign funds, including solely funded, jointly funded, and cooperative operations, compensation trade, and processing and assembly of supplied materials are an extension and appendage of the modern world's commodity economy and especially Hong Kong. These require operating in accordance with market economy patterns, and this demand, correspondingly, brings with it long-formed international conventions and enterprise management systems that are in accord with the development of a modern commodity economy as well as the pressures of market competition. Although, in the overall Chinese economy, these economic actions that have been formed through the drawing in of foreign funds are insignificant, because they are relatively centralized in the open coastal regions, especially in the large Zhu Jiang delta region in places like Shenzhen, Zhuhai, and Guangzhou,

they have greatly increased the market economy factors in this region. In particular, the clear property rights of enterprises invested in by foreign business interests, the advanced enterprise management systems, and the high efficiency that have thus been produced have had a model effect on township and village enterprises, which are now developing locally and which have relatively flexible mechanisms. Further, the foreign-invested enterprises often have township and village enterprises as their targets in cooperation, jointly funded operations, and the development of processing and assembly businesses. This then gives the township and village enterprises the foreign exchange, equipment, technology, and markets they so urgently need. Thereby, the development of township and village enterprises is promoted to a certain degree, which changes the ownership structure of the region and increases the strength of the market economy. According to a survey, of the financial income of the four counties of Dongguan, Zhongshan, Shunde, and Nanhai in the Zhu Jiang delta from 1978 to 1987, the amount derived from state-owned enterprises fell from 60.4 percent to 24.3 percent and the proportion from township and village enterprises rose from 38.6 percent to 52.5 percent.<sup>9</sup> The dramatic rise in the position of township and village enterprises in the economy of these regions has placed state-owned enterprises in a position where, if they do not reform, they will find it difficult to develop. The development of "the three kinds of enterprises, which are either partially or wholly foreign-owned," enterprises involved in "the three types of import processing, and compensation trade" and township and village enterprises meant that the original product economy structure was not in accord with economic development. Thus, there have developed labor markets, foreign exchange markets, funds markets, means of production markets, technology markets, and information markets. Although these have seen only initial development or are even in their primary stage, their influence on economic reform certainly cannot be ignored.<sup>10</sup>

More important, the opening to the outside has promoted changes in social views. At the beginning of the opening up, the Shekou Industrial Zone erected a large sign reading "Time is money and efficiency is life." This had a great effect throughout the country. Following development of the practice of opening to the outside, the results concept, market concept, commercial reputation concept, skills concept, and even the concept of law, which are all modern commodity economy concepts, have affected, to differing degrees, the open coastal regions. A large number of peasants and urban residents have become entrepreneurs with a great knowledge of the modern commodity economy and an understanding of the international situation. This has laid down a firm base for further reform of the overall society.

2. The reference role of Hong Kong in the Chinese mainland's development of a modern commodity economy.

The reference role of Hong Kong in the Chinese mainland's development of a modern commodity economy has meaning on two levels: 1) Hong Kong as a special



model of a modern commodity economy, that is, a model of an open free market economy, plays a reference role for China's open coastal areas, especially the Shenzhen and Hainan Special Economic Zones (SEZ). 2) The development patterns and movement mechanisms for a modern commodity economy, as manifested by the Hong Kong model, have a reference and inspirational role for China's economic structural reforms. At present, the reference role is being developed mainly on the first level. In the 40 years since World War II, Hong Kong, with few resources and limited territory, has swiftly developed from an entrepot port in South China to a newly industrialized region and an important financial and trade center for the Asian and Pacific region. In 1987, per capita GNP [gross national product] reached \$8,200. The economic miracle that Hong Kong has created has meant that the free port model and its economic development experiences have had a major influence on formation of the Shenzhen SEZ model and on improvement of the economic environment. This influence has spread from Shenzhen to the Zhu Jiang delta and to the open coastal regions. While the phrase "the special zones are not special" does refer to the restrictions of the national product economy system in the special zones, it also shows that the special policies that the special zones had implemented have been swiftly transplanted to and promoted in the open coastal regions, which has greatly speeded the pace of economic reform in the coastal regions.

At present, the use of Hong Kong as reference by the coastal regions is developing on many levels. On the political level, the experiences of the Hong Kong civil service system and the Independent Commission Against Corruption are being used as reference. On the economic level, the Hong Kong Government's positive nonintervention as well as its experiences in the systems and management of land auctions, stock listings, securities issue and public construction are all being used for reference. On the legal level, research into and transplanting of economic law has already begun. It is worth noting that the reference made to Hong Kong in recent years has changed from individual economic development experiences to overall models. This was manifested especially in the course of the establishment of Hainan Province. In fact, the newly established Hainan Province is developing toward a free economic region model. In formulating the Hainan SEZ tax system, share regulations, bond regulations, land sale rules and so on, the current Hong Kong laws are, to a great degree, being used for reference. Of course, on the theoretical level, there is much debate about this type of reform.

Since the party's 13th congress put forward the theory of the initial stage of socialism and theoretical circles engaged in exploration to gain a fresh understanding of capitalism, the reference to Hong Kong on the second level has begun. Recently, Professor Li Yining pointed out in Hong Kong: "We should sum up the experiences of Hong Kong's economic development and make these experiences the common wealth of the whole Chinese

people, so that they can help in the progress of China's economic reforms and are of assistance in realizing China's economic prosperity. I think that this is not only the hope of every one of us, but also should be an obligation of the people in the economic circles of the mainland and of Hong Kong."<sup>11</sup> It can be seen that Hong Kong's importance to China's overall economic reform is daily becoming more obvious. Naturally, because of the great disparity in economic scale between the mainland and Hong Kong, and the differences in economic growth prospects and conditions, Hong Kong experiences cannot be completely copied. However, it can be said without exaggeration that, because of the close relations between the Chinese and Hong Kong economies and the frequent dealings between personnel on the two sides, together with the existence of sizable Chinese-funded groups in Hong Kong, Hong Kong has become a most important window through which China can gain a new understanding of capitalism and can study and use as reference the development patterns and movement mechanisms of an international commodity economy.

On the one hand, the market economy factors that have been drawn in through Hong Kong have continually increased, which has given the existing product economy a major beating. On the other hand, the open coastal regions have, in order to improve the investment environment and draw in foreign funds, taken as their reference the economic development experiences of the world and of Hong Kong in particular, and have engaged in reform of the original system. The combination of the two roles has greatly speeded the pace of economic reform in the open coastal regions. This has been prominently manifested in the Zhu Jiang delta region of Guangdong. This regional reform train of thought, which had the opening up as its juncture and which is gradually developing from south to north and from the coastal regions to the hinterland, will assist in overcoming the various problems that have resulted from the uniformity in the national reforms which have not considered regional differences, and will thereby reduce the difficulties and risks of reform. Last year, the central authorities put forward a coastal economy development strategy and, essentially, it required the further speeding of economic structural reform in the coastal regions, so that these regions could link up to the international commodity economy system and further facilitate the rational deployment of various types of production resources and factors. Thus, Hong Kong's position in the overall strategy of China's economic reforms will become even more important.

### III

If we are to fully bring into play the superiorities of Hong Kong and its role in the course of China's economic modernization, we should at present pay attention to the following issues:

1. Coordinating the process by which Chinese-Hong Kong economic relations are strengthened and further expanding the basis of economic cooperation between the two sides.

At the present stage, there exist great differences between China and Hong Kong in terms of political, economic, and legal systems. Thus, after Hong Kong returns to China in 1997, the relative independence of economic growth and economic structure of the two sides will continue to exist for a long period. Thus, the closer the economic relationship between the two sides becomes, the more it will be necessary to strengthen coordination and linkage between them, in order to avoid and reduce unnecessary friction and contradictions. At present, in the Chinese-Hong Kong economic relationship, their complementary nature is the guiding aspect and the basis of cooperation between the two sides. However, the export product structure of China and Hong Kong are similar and both have light industrial products, textiles, and electronics as their major exports. Only as long as the product grades of the two sides are different will competition not be intense. After raising the level of economic development in the coastal regions and the generational change of products, the competition between the areas will become increasingly intense and the basis of cooperation between them will be weakened. Thus, at present there is an urgent need to analyze, from a long-term view, the relative advantages and disadvantages of economic development in the two places and formulate long-term development strategies for them, so as to coordinate the development of their industrial and product structures. This will facilitate the effective use of the advantages of each place, allow each side to make up the other's deficiencies, allow pernicious competition to be avoided, expand the basis of economic cooperation and raise the overall competitiveness of the two places in world markets. Specifically:

First, the position of Hong Kong as a trade entrepot port must be further strengthened. Some people are worried that following development of China's external trade, and with international markets becoming increasingly close, the position of Hong Kong as China's foreign trade entrepot port will be weakened. This worry is not without reason. Thus, in China's foreign trade development strategy, there should be a clear appraisal of Hong Kong's role. I believe that even from the medium- and long-term view, Hong Kong's position as a trade entrepot port not only should not be weakened, but should actually be strengthened. The reasons are: 1) Of China's total exports, those exported to or through Hong Kong constitute more than a third and Hong Kong plays a decisive role in China's foreign trade. 2) Hong Kong's complete communications and transport systems, its traditional and close links to the international market, as well as its large number of skilled industrial and commercial management personnel are the most beneficial conditions for China in moving into international markets. 3) Hong Kong plays an irreplaceable intermediary role in indirect trade between the Chinese mainland and Taiwan, South Korea, and Indonesia. Thus, seen from the strategic view, China should fully utilize Hong Kong's advantages and, through Hong Kong, gradually establish sales avenues, sales networks, and information feedback systems for developing international markets.

Also, the foreign trade system in each province should study how to strengthen links, on both the structural and business levels, to Chinese-funded enterprises from their province that are based in Hong Kong, so as to resolve well the interests distribution question, gradually form group operations, and thereby develop into multinational corporations. In addition, following the swift development of Chinese-Hong Kong economic relations, the transportation and freight capacities between the mainland and Hong Kong have become saturated. At times, there are even cases of overload and Man Kam To becomes a bottleneck. There also needs to be strengthened overall coordination in this respect.

Second, scientific and technological cooperation between China and Hong Kong must be strengthened. At present, the main form of industrial cooperation between China and Hong Kong is the processing and assembly of imported materials in labor-intensive industries. This form does make a positive contribution in promoting economic cooperation and development between the two places. The problem is that cooperation should not remain at this level. Seen from the long-term, this is not helpful in promoting a switch in Hong Kong industry. At present, because the industrial base is weak in Hong Kong, there is a lack of skilled scientific and technical personnel, the scale of enterprises is small, investment activities are short-term. Because the Hong Kong Government practices a policy of nonintervention, the pace of the switch in industries is behind that in South Korea and Taiwan. At the same time, through 40 years of construction on the mainland, a fairly strong industrial base has been established and there is a large number of skilled scientific and technological personnel and advanced technologies. Thus, reform of the existing science and technology structure and strengthening of scientific and technological cooperation between China and Hong Kong will be beneficial to combining the scientific and technological strengths of the mainland and the information and markets of Hong Kong. This will give play to Hong Kong's characteristic of quickly absorbing scientific and technological achievements and its strong capacity to adjust to market changes. This will both assist in Hong Kong's industrial switch and be of benefit in speeding the process by which China's scientific and technological achievements are turned into products. Promoting the development of economic cooperation between the two places into technology-intensive spheres will further expand the basis of economic cooperation between the two places.

Third, the scale of cooperation between the two places in the financial field needs to be further expanded. At present, the scale of cooperation between China and Hong Kong in the financial field is not great, and, when the mainland raises funds through Hong Kong banks, the main form is direct or indirect commercial credit and syndicated loans. In the future, we can further utilize quite new international financial tools and financing forms, such as money and interest-rate swaps, bill-issuing financing arrangements, transfer of syndicated

credit, and so on. At the same time, the further development of business relationships between banks in the two places will gradually expand the business scope of Hong Kong banks on the mainland and their area of cooperation and thereby promote development of economic and trade relations between the two places.

Fourth, we need to strengthen the resolution of contradictions of interests between China and Hong Kong. In recent years, following development of economic cooperation between the two places, interests contradictions and business disputes have continually occurred. These have included wage disputes, shareholding rights conflicts, fraud, and other commercial crimes. As the relevant laws in each place cannot keep pace with economic development, there exist many loopholes, and the two sides lack effective avenues for contact, regulation, and arbitration, and this often results in bad effects that are not conducive to healthy development of economic relations between them. This problem now requires that China and Hong Kong seek an appropriate avenue or establish relevant coordinating bodies to gradually resolve such contradictions.

## 2. Maintaining the international nature of the Hong Kong economy and the normal movement of its free economic system.

In recent years, following the development of Chinese-Hong Kong economic relations, the degree of mutual reliance between the two sides has deepened and this, of course, has been of major significance to development of the economy in both places. However, it should also be recognized that Hong Kong is an export-led economy and its economic development pressure comes mainly from its close links to the international market. Hong Kong shoulders an active role in the process of China's economic modernization and one of the important conditions for this is the international nature of the economy. Its international nature is one of the major advantages of Hong Kong's economic development and this needs to be paid special attention. Min Jianshu [7036 1696 5771], a professor at the Chinese University of Hong Kong, has pointed out: The attention of Hong Kong's factory owners and business people is excessively centered on the mainland, which might well lead to Hong Kong changing from "a great international city" to a "great mainland city" whereby it will lose its competitiveness on the international market. This idea is very worthy of attention. Especially during the last few years, Hong Kong has faced the threat of international trade protectionism and competitive pressure from the newly industrialized countries and regions in Asia, and thus its own industrial switch has been slow. This trend is even more worthy of concern. At the same time it develops mainland markets, Hong Kong should pay attention to strengthening its development of the international markets, and especially of Asian and West European markets, so as to maintain its international advantages. In various senses, the development of Chinese-Hong Kong economic relations depends on the international nature

of the Hong Kong economy and its development in the international market. Without the demands of large foreign orders, the scale of Chinese-Hong Kong economic cooperation will be greatly restricted. Overreliance on the mainland will not be beneficial to development of the Hong Kong economy or beneficial to development of Chinese-Hong Kong economic relations.

Related to this is the scale of mainland investment in Hong Kong and its development strategies. In the last 10 years, there has been a rapid development of mainland investment in Hong Kong and the field of investment has grown from finance and trade to real estate, industry, transport, tourism, and other areas. It is estimated that total mainland investment ranges from \$6-10 billion, which is in excess of Hong Kong investment in the mainland. It should be fully affirmed that mainland investment in Hong Kong has made a major contribution to maintaining the economic prosperity and stability of Hong Kong, in fully bringing into play the advantages and bridge role of Hong Kong, in promoting the development of externally oriented economies in the open coastal regions, and in allowing the mainland to study and make reference to the movement mechanisms of the modern commodity economy. However, in the last few years, every province and city and even some counties have set up investment companies in Hong Kong and there is a trend toward blind development. In particular, some newly established enterprises that lack basic operational conditions in terms of quality personnel and funds have rashly come to Hong Kong and, being uncoordinated, compete against each other and even trade in shifty goods, producing economic losses and bad political effects. It is worth pointing out that these enterprises that have extended from the mainland to Hong Kong have, to differing degrees, brought mainland management systems and operational forms, which do not stress results, to Hong Kong. If this blind development exceeds a certain degree it will affect Hong Kong's international nature and the normal operation of its free economic system and will affect Hong Kong residents' confidence. The basic concept of "one country, two systems" is intended as a means of ensuring that, following reversion to China of sovereignty over Hong Kong in 1997, the existing capitalist and free economy system will be maintained without change for 50 years. This will allow the continued bringing into play of Hong Kong's superiorities and will guarantee its prosperity and stability. Thus, the development of Chinese-funded enterprises in Hong Kong, regardless of whether we speak in terms of development scale or the industrial structure, should all take this as a precondition and must not form monopolies. It is extremely important that reform of the management systems of Chinese-funded enterprise be accelerated. The beneficial economic environment in Hong Kong should be fully utilized and reference should be made to the advanced management experiences of foreign and Hong Kong enterprises, including experiences in gaining listings on the stock exchange, so that the large Chinese-funded enterprises situated in Hong Kong can gradually become advanced enterprises of

international standard. Doing things this way will be beneficial to promoting the prosperity and stability of the Hong Kong economy and also will provide experiences for the reform of the management structures of mainland enterprises. Seen from the long-term view, this is a critical task in the development strategies of Chinese-funded enterprises in Hong Kong.

3. Strengthening study into the economic development patterns and movement mechanisms of Hong Kong, so as to promote the leading reforms of the economic structure in the open coastal regions.

In the last few years, the mainland's study of Hong Kong has developed and deepened. However, seen overall, this research is vague and general and there is little deep, concrete, and systematic research. This means that mainland reference to Hong Kong's economic development experiences often stops at a quite superficial level. Thus, we should now further strengthen research into the Hong Kong model and its movement mechanism. In particular, proceeding from the political, economic, legal, and cultural levels and their interlinked relationships, we should seriously study and sum up the successful Hong Kong economic development experiences, and from these find patterns. This will be beneficial in promoting, at a deeper level, the development of the mainland's efforts in using Hong Kong as a reference.

The mainland's reference to Hong Kong can be developed on two levels: 1) The Hainan SEZ and the Shenzhen SEZ can make reference to and transplant the overall model of Hong Kong's economic development and thereby gradually develop toward a free economic zone model. 2) The provinces and cities with fairly close ties to the Hong Kong economy, especially Guangdong and Fujian, as experimental areas in comprehensive national reforms, can make reference to the successful experiences of Hong Kong in developing a modern commodity economy and, in the current economic restructuring, speed the pace of economic reform and truly become experimental areas in national reform. If this work is done well, it will greatly improve the investment environment of the above-mentioned places. In this way, in the strategies, it will be possible to make the abovementioned regions the point of synthesis in strengthening mainland economic cooperation with Hong Kong and the base for expanding economic cooperation between the two places. This will have a deep effect in China's opening up, reform, and economic modernization.

#### Footnotes

1. See Huarun Trade Consultancy Company Limited: *A Compilation of Hong Kong Economic and Trade Statistics 1947-87*.

2. Based on an analysis of the data contained in ZHONGGUO TONGJI YUEBAO No 12, 1987.

3. See Hong Kong TA KUNG PAO 30 Jun 88.

4. See Huarun Trade Consultancy Company Limited: *A Compilation of Hong Kong Economic and Trade Statistics 1947-87*.

5. See Hong Kong Trade Development Council: *Survey on Hong Kong Reexports—Summary Reports*, Nov 88.

6. CHINA'S FOREIGN ECONOMIC RELATIONS AND TRADE YEARBOOK 1988.

7. See Hong Kong Branch of the Bank of China (comp.): HONG KONG AND MACAO ECONOMIC QUARTERLY JOURNAL 1988, No 2.

8. Ibid. 1987, No 4.

9. Based on figures collected by the author in his on-the-spot investigation in the Zhu Jiang delta.

10. See Yang Zhenhan [2799 2182 3352], Feng Bangyan [7458 6721 1750], and Liang Zhisen [2733 4442 2773]: "The Rise of the Zhu Jiang Delta and the Enlightenment Gained" in Hong Kong's JINGJI DAOBAO No 16, No 17, 1988.

11. Li Yining: "On Hong Kong's Prosperity and Hong Kong's Experiences," XIN BAO 27 Jan 89.

#### Mergers 'Effective Means' To Improve Industrial Structure

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17 Jun 89 p 3

[Article by Guo Jian 6753 0256 and Zhong Chaosheng 6988 3390 3932: "Do A Good Job of Enterprise Mergers Under the Macroeconomic Tightening"]

[Text] In order to avoid decline in supply and production, the "negative effects" which might be brought about by the retrenchment policy, it is necessary, while working hard to reduce the industrial growth rate and restrain extensive growth, to pay adequate attention to bringing out the output capacity of existing fixed assets and improving the effective supply so as to guarantee the stable operation of the national economy through intensive growth. Enterprise mergers are an effective means by which we can improve the structure and quality of the enterprise's assets so that we can increase effective output without additional investment or with only a small extra investment, and promote the readjustment of the structures of trades and industries.



### **Difficulties Experienced in Enterprise Mergers Under the Macroeconomic Tightening**

In general, macroeconomic tightening provides a favorable climate for enterprise mergers. When money is in short supply and there is a decrease in market demand, those enterprises that are poorly managed or have poor economic returns are very likely to continually lose money, go bust, or be merged by other enterprises. Restricted by various factors, however, China's enterprise mergers came across many difficulties, and the mergers did appear to be transitional.

1. Ambiguity of property rights led to ambiguity of the main body that plays a decisive role in enterprise mergers. Ambiguity of property rights is a drawback inherent in China's enterprise system. Since the contract system was widely introduced, this problem has remained intact. For those enterprises that are virtually unlikely to revive, the authorities in charge tend to refuse to decide whether they should be merged, under the pretext of respecting the wishes of those enterprises, while the enterprises themselves are unable to make a decision on merging for the reason that the property rights of the enterprises do not belong to them, whether they are in favor of or against merging. As a consequence, the government has to absorb the losses of those enterprises for a long time. There have been many cases in which a proper chance of merging was missed.

2. Tight money created difficulties for the enterprise in its effort to take over other enterprises because it had no money to make payments. Since reform was introduced, China's enterprises have been more or less free from unified state control over their incomes and expenditures, but they have been excessively dependent on bank loans. When retrenchment became the order of the day, it was the volume of credit that first bore the brunt. Under the circumstances, all enterprises ran short of money. Not only those enterprises that had poor economic returns but also those that had satisfactory economic returns found it difficult to continue operations. Retrenchment exposed some enterprises to the danger of being merged, and rendered those enterprises that intend to take over other enterprises incapable of doing so.

3. The fact that the authorities in charge placed obstacles in the way made enterprise mergers more difficult. The ambiguity of property rights in China's enterprises also find expression in departments in charge actually taking possession of enterprises. In the current practice of enterprise mergers, the departments in charge of enterprises also showed a tendency to take a firmer grip of enterprises. When the enterprise under other departments tried to take over the enterprise under their control, they would, in the capacity of representatives of property rights, impose a transfer charge or would veto the merger. This obstacle made forms of enterprise mergers other than those made through purchase difficult to materialize.

### **It Is Necessary to Improve the Government's Role in Enterprise Mergers**

All localities still have some confused ideas about the role the government should play in enterprise mergers. If we hesitate, we will miss opportunities, resulting in serious consequences. Therefore, it is necessary to offer clarification.

1. There were particular historical conditions for the existence of state ownership in China. Although the reform of state ownership constitutes the primary content of the economic restructuring, this reform in no way amounts to total repudiation of state ownership, but, rather, aims at changing the form of its realization and the relevant method of management. At present, for governments at all levels as representatives of state property, an important thing in performing their duty to take care of state-owned assets is to merge in various ways those enterprises that consume excessive materials, have an improper product mix, produce poor quality products, or are duplicate construction, in accordance with the policy of readjusting the industrial structure, so as to improve the returns of state-owned assets employed. During a period when the dual system is being transformed and before a new enterprise system is established, it is all the more important for the governments to shoulder this responsibility.

2. To conduct enterprise mergers in various forms constitutes an important content of deepening the reform under the particular situation, rather than negating enterprise reform. The contract system, which has been introduced in most enterprises, is not the final formula for enterprise reform. The contract system tends to rigidify the enterprise's output and hence the industrial structure. Merging some enterprises into other enterprises which have great potential and good prospects will undoubtedly help remedy the defects of the contract system.

3. Enterprise mergers with compensation should be carried out after a new enterprise system has been built up, and after property right relations between governments at all levels and enterprises and those between governments at all levels have been clearly defined. Without these conditions, undue emphasis on compensation when state-owned enterprise are merged will only add new confusion to the erstwhile extreme ambiguity found in property relations, intensifying blockade between departments and strengthening occupation of state-owned property by departments with the result that the limited funds fail to carry out effective allocation of resources.

4. As the government has assumed dual responsibility for macroeconomic control and regulation and for control of assets, it has a better understanding of the industrial

structure and the allocation of resources than the enterprise management; again, as it has introduced the contract system for a few years, it also has a better understanding of the assets within the enterprise and the condition about the management of the assets, and is in a position to better coordinate the changes in interests brought about by enterprise mergers. Therefore, it is more proper for the government to decide matters related to enterprise mergers.

To sum up, in a particular period of retrenchment and rectification, government organs should play a more important role in enterprise mergers. This role must embrace many important tasks, such as deciding upon the way in which enterprises are merged and upon the enterprise to be merged; governing the process of enterprise mergers; choosing leaders for enterprises formed after merging; and resorting to mandatory administrative means when necessary.

### Some Suggestions on Policies

Enterprise mergers under the leadership of the government is a task that has close relationship with policies. It is necessary to pay attention to the following points in carrying out the work:

1. Organizing powerful leading bodies. I suggest that leading groups at provincial and city (area) levels in charge of enterprise mergers be set up. These groups can function as working bodies under financial and economic leading groups, or as independent bodies under the local administrative leadership. They should absorb leaders from various departments so that it can give unified guidance to and coordinate enterprise mergers.
2. It is necessary for every area to work out a plan to readjust industries within its area in light of the central and local governments' policies on property rights, put enterprises within its area into different categories, make a clear and detailed list, and decide on a list of those enterprises that should be merged, in accordance with their operations and prospects.
3. It is advisable to integrate the new ways in which enterprises were merged in recent years with the past practice of "shutting some enterprises down, suspending their operation, amalgamating with other enterprises, or switching them to the manufacture of other products." It is necessary to carry out enterprise mergers in various forms. For example, a merger by amalgamating enterprises when the enterprises involved switch to the manufacture of other products, a merger by which an enterprise takes over another enterprise on the condition that the former inherits creditor's rights and is held responsible for liabilities, a merger by which an enterprise acquires most of the shares in another enterprise, and a merger by which an enterprise buys up another enterprise.

4. It is necessary to adhere to the practice by which leaders for enterprises formed after merging are recommended by the leadership and elected by the masses. It is necessary to select managers from enterprises involved in the merger. It is necessary to stick to the practice of inviting tenders and the process must be open to the public. It is necessary to sign a new contract and a new lease and perfect the management contract.

5. It is necessary to promote the development of industries producing popular items through enterprise mergers so that the ground will be well prepared for those enterprises to evolve into business conglomerates.

6. Enterprise mergers within a province or an area can be carried out and supervised mainly through administrative means. Those areas (including counties), whose revenues are affected by a change in the affiliation relationship of the emerged enterprise and in its channel for receiving and turning over money, should be allowed to turn over a readjusted base amount. Enterprise mergers involving places beyond a province or an area should be carried out on a voluntary basis and mainly through financial means (such as through acquisition of the shares in a certain enterprise or through buying up a certain enterprise.)

### Standardization of Local Governments

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[Article by Qian Ying 6929 3841 and edited by Shen Zhiyu 3088 1807 3342: "Regulation of the Economic Behavior of the Local Governments Is the Key to a New Economic Order"]

[Text] The current confusion in the economic order is principally caused by the nonstandardized behavior of the principal bodies of behavior in society, while the nonstandardization of the government's economic behavior has played a decisive role and influenced, exemplified, and enticed the economic behavior of the enterprises and individuals. The key to ordering the economic environment and improving the economic order is the government's standardized economic behavior. If the government does not observe the regulations, then there is nothing to say. Therefore, in addition to the government's strengthening and improving its macro-economic adjusting and controlling measures and perfecting legal statutes, in order to overcome and eliminate the current phenomenon of confusion in the economic order and set up a new order that meets the demands of development of the commodity economy, it is urgent for local governments to standardize their own economic behavior.

### I. The Dual Nature of the Status of the Local Governments Determines That the Local Governments' Economic Behavior Must Be Standardized

At present, the local governments' economic behavior has changed from a unitary character to a dual character. Prior to the reform, lower-level governments had to

carry out the upper-level governments' orders and, based on the orders from the state and the upper-level government, make corresponding decisions on the economic behavior of their localities. This type of a vertical and unanimous economic order is principally characterized by obedience. Now, an account of the central government's delegating power and ceding interests to the localities, the local governments have gradually expanded their regional interests and their administrative officials are becoming daily more anxious to achieve immediate and quick successes. This, together with the force of pressure of the various localities scrambling for advantages, has led to the economic behavior of the local governments frequently coming into conflict with the interests of the whole or the interests of other localities. The most prominent feature of this lateral form of disintegrated economic behavior is independence. The dual nature status of the local governments determines that their economic behavior must be of the coordinated type. They should firmly execute the orders from the state and the upper-level government, abide by macro-economic adjustment and control, and create a harmonious and coordinated environment for the development of the entire economy and the local economies. However, the word "should" is not the same as "reality," this dual character status may, at the same time, provide the possibility for the local governments' economic behavior to become nonstandardized. Facts have shown that the current daily expansion of the various kinds of local interests and the localities' economic behavior of continuously strengthening their monopolistic posture precisely indicate that this possibility is becoming reality. This demands that the local governments correctly handle the relationship between this vertical unanimous character and lateral disintegrated character, that is, between the characteristic of obedience and the characteristic of independence, and to harmonize the contradictions and conflicts between the two. The key to coordination is standardizing their economic behavior.

The standardization of the local governments' economic behavior is the need to improve the economic order. Aside from certain errors committed by the central government, the present confusion in the economic order is mainly caused by enterprises failing to behave in accordance with the market regulations; a lack of clear standardization of behavior among local governments; and a lack of a concept of the commodity economy and of observing discipline and obeying legal statutes among society. Of these three factors, the outstanding one is the lack of standardization in the behavior of local governments. For example, the enforcement of the policy of delegating power and ceding interests by the central government enables the localities to obtain vitality. But because of the deviations in the local governments' understanding, or because they, in the course of work, are consciously or subconsciously influenced by ideas about expanding local interests and the individuals' own reputations and private gains, this correct guideline of the central authorities has been twisted and has changed form. At the same time, with the development of the

commodity economy, certain passive elements can easily infiltrate into government organs. In this connection, an example is the emergence on a nationwide scale of the phenomenon of party and government organs establishing and running enterprises.

## **II. Principal Manifestations and Causes of the Local Governments' Economic Behavior Not Being Standardized**

At present, the local governments' nonstandardized economic behavior is principally manifested as follows:

### **A. Anticontrol and Random Control**

The dual status of local governments shows that they are both controlled objective bodies and controlling principal bodies and possess the obvious dual status of being controlled and controlling. Investigations show that this dual status regularly comes into conflict with the demands of the development of the commodity economy. When a local government is a controlled objective body, it will make the utmost efforts to negotiate terms with the upper level and even the central government, or attempt to evade control by devious means such as "taking a by-path" or "rushing the red light." At the same time, it will strenuously fight with the upper level for projects, funds, investments, and raw materials and generally demonstrate strong anticontrol behavior. Last year in certain regions, the explosions of the violent "silkworm battle" and "cinnamon oil battle" were clear illustrations of such anticontrol behavior. But in acting in the capacity of a controlling body, the local government will demand that its subordinate units accept control unconditionally and demonstrate a strong anti-market tendency. In July and August last year, a certain electric power generating plant was short of coal. The city government, on the pretext of protecting the situation as a whole, several times stopped and plundered coal from passing coal-carrying vessels, and as a result, many enterprises' coal consignments were seized and they were thus forced to stop production. The consequent economic damages seemed to be nobody's concern.

### **B. Random Interference**

The nonstandardized economic behavior of local governments is also seen in their random interference in the markets, enterprises, banking units, and departments. So-called random interference refers to interference that lacks the continuous nature of policies, does not rely on a system for regulation, and results from sudden orders or orders that are suddenly modified from the original made that same day.

Random interference in the market is principally manifested as follows: When certain degree of confusion appears in the market, the local government, in an attack against and taxation departments to take procedural

intervention. This sort of intervention has no predetermined objective, is of a nonstandardized and subsequently developed nature and is made purely passively and to meet a contingency. It is not an advanced or feedback regulation of a predetermined or standardized nature. The result is that it not only cannot control the rise in prices or stabilize the market order but also helps the rise in commodity prices and disturbs the market order.

Random interference in enterprises mainly consists of the following: 1) The administrative official fixes the objects, operation scale, and distribution for an enterprise; 2) There is random levying of fees on enterprises, which increases the enterprises's burden; and 3) Official power artificially supports or restrains the existence or survival of an enterprise. This kind of random interference in the enterprises by local governments causes them to lose their competitive vitality, weakens their motive for making accumulations, and adds to their dependence on the government.

#### C. Short-Term Acts

The nonstandardized economic behavior of local governments is further illustrated by the following several kinds of acts becoming of a short-term nature:

1. Lack of characteristic of an integrated whole. This is first of all manifested in economic construction being of a nonplanned nature. The planning of economic construction is not generally through the relevant business departments making the initial study and then recommending, with full supporting citations and/or references, the government's approval, but principally depends on the administrative leadership's decision. The more frequent the change in the leadership level (especially in the administrative side), the greater the instability in the planning. Next is the unwillingness to view the pros and cons of the projects and undertaking them blindly, thus artificially breaking the structure of the rational regional division of work.

2. Investment inflation. The seeking of early and immediate successes by the local governments is rampant. This frequently leads to such symptoms as investment inflation, redundant construction, and other economic overheating ailments. Statistics have shown that in recent years, the gross volume of investments in certain localities has far exceeded the growth in economic benefits; that investment inflation has led to demand inflation; and that this has been followed by an aggravation of insufficient market supply.

3. Going after production value. The present system of assessing the leadership's performances by means of the size of the output value has led to the government's economic behavior of being oriented onesidedly to seek a high output value, whereas at present in the great majority of regions, high output value can only be obtained through high input, high energy consumption,

and overworking of the equipment and, as a result, the enterprises have generally exhibited the phenomenon of low benefits or a total lack of benefits.

#### D. Ineffective Economic Supervision

Seen from the legal angle, confusion in the economic order, aside from the imperfection of the legal codes, principally means noncompliance with the legal statutes, the legal statutes being difficult to comply with; looseness in executing the legal statutes; and failing to prosecute violations of laws. In one word, it means that the government departments charged with the functions of economic supervision are weak and inefficient.

1. Insufficient supervision of plans. The power structures responsible for the supervision of the execution of plans, namely, people's representative congresses at various levels and their standing organs seldom supervise the execution of plans and do not, basically, supervise at all except symbolically while the congress is in session. This can easily lead to deviations in the government execution of plans. Because of factors in the leadership system, administrative and management organs in the sectors of statistics, auditing, finance, taxation, commodity prices, banking, industry, and commerce, in their capacity as business supervisory organs, have found it difficult, and even basically impossible, to effectively carry out supervision of the government's economic behavior.

2. In effective market supervision. Market behavior is irregular: On the one hand, the violations of laws, discipline, and professional moral codes in business are rampant; on the other hand, party and government organs engage in business, run enterprises, and directly take part in economic activities. Government personnel responsible for law execution deal very weakly with irregular behavior in the markets. A minority of these personnel even go the extent of secretly colluding with the producers and the operators, use their power to seek private gains, and bend the law for the benefit of relatives and friends. This not only damages the prestige of the government and law but also disrupts market order.

3. Ineffective financial supervision. At present, among enterprises and individuals, the phenomenon of tax evasion is extremely serious. Less than 30 percent of the individual units pay tax, and the regulation tax on individual income is basically not being collected. Auditing departments are also guilty of weak supervision over the various economic relations generated by the business transactions between enterprise business units and their financial receipts and disbursements. A state of government organs' administrative expenses exceeding their budgets is rampant.

4. Ineffective supervision by banks. The banks exert weak supervision over such matters of the enterprise business units as cash control, credits and loans control,



and comprehensive budget balancing. In particular, they are not strict enough in their control of collective purchases such as houses and buildings.

Among the basic causes of these irregular acts is the uncoordinated reform, particularly the lagging behind of the reform of the political structure, with the result that the reform program of the economic structure is not on schedule. The outstanding problem is the nonseparation of government from enterprise functions. In addition, the local governments' behavior is guided by an intense concept of the interests of the localities and the psychology of being eager for quick success and instant benefits; the government is lax in the enforcement and execution of laws, and the conduct of some of the law-enforcement personnel is questionable; and the caliber of government servants is not high.

### **III. Starting With Changing the Functions to Pushing the Standardization of the Local Governments' Economic Behavior**

In standardizing the economic behavior of the local governments, besides fully developing the commodity economy, we should principally take deepening of the reform as the motive power and effecting functional changes as the basis. The general principle is, on the side of microeconomic activities, the government's functions should be weakened, while on the side of macroeconomic activities, the government's functions should be strengthened. Taking this as the turning point, the standardization of its economic behavior should follow the lines below:

#### **A. Deepening the reform and changing the functions of the government.**

Changing the government's functions is an important guarantee to standardizing the local governments' economic behavior. First, government must be separated from enterprise functions. This is the nucleus of the standardization of the local government's economic behavior. The first step is to shift from principally using administrative measures to principally using economic and legal measures. The second step is to set up, by means of different forms such as contracting, lease and rent, and the stockholding system, a strict economic and legal responsibility system for the enterprises so that they will completely sever their links with the government and really become independent economic entities. The third step is to solemnly and earnestly deal with the party's and government's practice of establishing and running enterprises (companies); employ forceful administrative, economic, and legal measures to solve the problem of the nonseparation between officials and merchants and nonseparation between government and enterprises; solve the irregular practice of the "referee playing in the ball game," making the government return to the eminent status of "referee" and thus allowing the ball game to go on in a normal manner. Next, we should

push structural reform and readjust and streamline personnel. Before the emergence of the general program for the state's structural reform, the local governments can, following the principles of separation of party and government, separation of government and enterprise, streamlining and unifying effects, and the central government's refraining from making any distinction in status between central or local establishments and the local governments, without forcefully demanding unanimity in status among their establishments, start first with making internal readjustments and then gradually proceed to carrying out structural reform. The first step is to reduce the number of people in the government executing system and specialized departments directly controlling the enterprises and products and to increase the number of personnel handling readjustment and control, supervision, law enforcement, social control, and so forth. The second is to regulate the size of the leadership level and solve the problem of there being more officers than cadets. The third step is to streamline the personnel. The fourth is to readjust the allocation of power, emphasizing the solution of the problem of the government centralizing power in itself, and to separate the decisionmaking power, examining and approving power, and the distribution of power, and, at the same time, formulate powerful restrictive mechanisms over the various kinds of power. Fifth, it is necessary to improve the quality of government personnel: 1) Strengthen their learning and training; improve their political ideology, their business quality and scientific management level; and augment their understanding of law compliance in their undertakings. 2) Reform the system of cadres and force the assessment system of tenure objectives so that the objectives of short-term jobs and long-term jobs are unanimous.

#### **B. Improving adjustment and control measures and ameliorating economic behavior.**

The improvement of adjustment and control measures is the basic road to standardizing the local governments' economic behavior. The following three points must be gradually accomplished:

1. Use of parameters in regulating economic operations. We should observe the extent of the development of the commodity economy in the locality and the industrial and product structures; employ economic levers such as price, taxation and credits, and loans; and through fixing different parameters within the scope permitted by state policy, regulate and guide economic operations. At the moment, we should employ well the following three economic parameters:

a. Price parameter. The law of value calls for the fluctuation of prices around value, but under the conditions of shortage at the moment, in the case of certain commodities, the operator cannot be allowed to fix the price entirely according to his own wishes. Regarding certain important commodities with a close bearing on people's daily life, such as meat, fowl, eggs, and so forth, and

certain commodities such as television sets and refrigerators which are in short supply, the local governments should fix their highest prices, with any excess portion to be confiscated and kept locally so as to punish market monopolists and those who engage in improper competition.

b. Taxation parameter. Based on the state's tax laws, taking localities as units, and taking into consideration the scale of development of the commodity economy in the different localities, local governments should employ a tax rate slightly higher or lower than the state's tax standard in order to regulate and rectify the past tax collection method of enforcing a unified tax rate irrespective of the localities and conditions and thus aggravating the state of imbalance.

c. Distribution parameter. In a certain sense, reform is further readjustment of the composition of interests. But if the readjustment is not appropriate or not suited to the times, this can cause injustice in social distribution. Local governments should pay attention to the use of the distribution parameter to handle well the relations between efficiency and justice and to rationally regulate the disparities in income allowed between departments and industries and trades. As for the individual, he should, according to the law, pay the regulation tax on an individual's income. This requirement should be made known to people by publishing it in the newspapers, and a social supervisory system thereof should be established.

2. Employment of legal measures to ensure the standardization of the local governments' economic behavior. First, the legal statutes should be perfected so as to change the situation of there being no laws to abide by into a situation in which there are laws to follow. In the event that legislation by the people's congress is difficult, the local governments can formulate certain temporary regulations to meet the urgent need. Second, laws must be strictly enforced. Since 1979, the NPC [National People's Congress] has promulgated over 30 economic legal statutes, the State Council has formulated over 400 administrative regulations in the economic sector, while the various standing committees of people's congress of the provinces and provincial governments have also formulated many local rules and regulations in the economic sector. The great proportion of these rules and regulations are suitable for use and should serve as the standards for governing the local governments' economic behavior.

3. Use of economic benefits as the basic standard in assessing the performances of the various localities. Output value and profit targets should not be taken as the first basis for measuring the performance of a government or enterprise, but in such assessments we should comprehensively apply and use the recently promulgated eight large economic targets for the manifestation of

economic benefits and attempt to standardize the economic behavior of government, enterprise, and individual from the external environment.

C. Consciously accepting supervision and perfecting the restrictive mechanism.

Consciously accepting supervision from the populace, society, and functional departments and perfecting the self-restrictive mechanism are effective measures ensuring the standardization of the local governments' economic behavior. Policymaking by the government itself, carrying it out by itself, and self-inspections are subjected to many defects. In order to thoroughly rectify such a situation, four supervisory measures should be carried out:

1. Supervision over policy making. The local peoples' representative congresses and their standing committees are the supervisors of the governments' policymakers. In ordinary times, peoples' representatives and their standing committees should supervise the economic policymakers to raise their theoretical level, scientific quality, and policymaking ability; they should supervise the latter to work according to scientific policymaking procedure and to prevent subjective decisionmaking; and economic and legal responsibility system governing the policymakers should be set up, so that errors in policy making can be reduced to the minimum. We must rectify the situation of caring only for policymaking without regard to its effects and not bearing any responsibility for the consequences. If necessary, the person's private property should serve as security so as to raise the sense of responsibility on the part of the economic policymaker.

2. Supervision of law enforcement. Following the changes in the government's functions, certain more important law-enforcement and supervisory departments, such as those for taxation, auditing, industry and commerce, supervision, finance and materials commission, should strictly perform their duties and functions; the government should guide and help these departments to correctly understand the scope of their respective functions and duties and the obligations of reciprocal coordination and should also stop the bad phenomena of departments fighting for power and interests and shying from bearing responsibility; the departments' office system, meeting system, examining and sanctioning system, and system of regularly submitting reports on work to the government leadership should be perfected; publicizing office work should be advocated and the transparent degree of political and business work should be heightened; a strict reward and punishment system should be instituted; and good and generous treatment should be accorded to working personnel in the law-enforcement departments, with special educational and employment privileges provided to their children so as to resolve their worries about the future. However, cases of misdeeds in work and legal violations

must be sternly dealt with. Besides revoking their privileges, the culprits should be shifted from their posts and stations and even subsequently dismissed.

3. Supervision of honesty in governmental work. First, we could consider a pilot study of a system of public servants in the law-enforcement and supervisory units; second, the private property registration system could be enforced; and third, a system of periodical transferring cadres could be carried out.

4. Supervision by public opinion. Strengthen public opinion supervision by means of broadcasting, television, and newspaper reporting of the nonstandardized behavior of the local governments generate a restrictive power and spirit and sense of fear about their own behavior.

### Journal Unveils New Editorial Policy

HK1807120089 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 4, 20 Apr 89 p 81

[Article by JINGJI YANJIU reporter: "Future Editorial Policy as Discussed at a Conference of the New JINGJI YANJIU Editorial Committee"]

[Text] The new JINGJI YANJIU editorial committee held a conference on 3 March to discuss the future editorial policy of the journal. Chief editor Zhao Renwei [6392 0086 0251] presided over the conference. The conference listened to the 1988 work report of the JINGJI YANJIU editorial department, given by Yang Changfu [2799 7022 4395], and a plan for running JINGJI YANJIU well in the new situation, presented by Mao Tianqi [0379 1131 0796].

The conference pointed out that the editorial policy that the previous editorial committee had put forward in 1985 was still appropriate in continuing to run JINGJI YANJIU well, but that it was necessary, in accordance with present developments and those in the next few years, to make the editorial policy more specific and to pay attention to handling well the following questions: 1) On the question of the relationship between basic theoretical research and research in applications, there is a need to raise the theoretical nature of research into applications and stress basic building of the discipline of economics. JINGJI YANJIU must stress the publication of well-grounded academic articles that are aimed at the current practice of reform and construction in China and which, in a down-to-earth way, study new situations, analyze new problems, sum up new experiences, put forward new understandings, and develop new concepts. 2) On the question of the relationship between Marxist economics and contemporary Western economics, there is a need to strengthen exploration of economics abroad and the drawing in and digestion of contemporary Western economics in order to develop Marxist economics. Marxist economics is, essentially, a critical, open ideological system and it continually develops in practice following the progress of the times. Regardless of

whether we speak of research in Marxist economics or research in contemporary Western economics, in both cases it must be based on China's national situation and must be opposed to indiscriminate copying. 3) We need to seriously implement the policy of letting one hundred schools of thought contend, and provide a forum for free discussion by everyone. We need to respect different schools and different opinions, so that the journal has a layout in which there is competition among diverse views, coexistence of diverse views, and a symbiotic relationship between diverse views. In the contention among views, we need to establish a fine academic atmosphere and style of writing. When climbing higher on the basis of other people's research, there is a need to candidly point out the source of the ideas, clearly state viewpoints, provide firm evidence, use succinct language, and express the ideas clearly.

The editorial committee at the conference affirmed the achievements of JINGJI YANJIU and at the same time pointed out some defects and deficiencies.

He Jianzhang [0149 1696 4545] spoke on adhering to Marxism and adhering to the policy of letting a hundred schools of thought contend.

Wu Jinglian [0702 2417 8834] spoke mainly on the topic of how discussion articles should respect the rules of academic discussion and, when drawing from other people's ideas, should note the source of such ideas. Wu Baosan [1566 1405 0003] and Zhang Zhuoyuan [1728 0587 0337] supported Wu Jinglian's ideas. Wang Mengkui [3769 1125 1145] spoke on the relationship between economic reform and economic construction.

Zhou Shulian [0719 0647 5571] expressed the hope that JINGJI YANJIU would publish more articles in the area of management (including both macroeconomic management and microeconomic management).

Su Xing [5685 2502] held that JINGJI YANJIU should have its own theoretical features and suggested that the editorial department think of ways to expand the contingent of writers and develop academic discussion.

Wu Baosan spoke on the question of writing style and proposed that articles that take issue with other expressed opinions should name the persons whose opinions they are taking issue with.

Li Jingwen [2621 0079 2429] pointed out that JINGJI YANJIU articles should combine qualitative analysis and quantitative analysis, and also noted that there should be a greater proportion of short articles and a diversification of styles.

**State Statistics Bureau Releases Data**  
*HK0607101989 Beijing RENMIN RIBAO in Chinese*  
28 Jun 89 p 3

[Dispatch by reporter Zhang Guorong 1728 0948 2837:  
"State Statistics Bureau, Other Units Release Jan-May  
Economic Data"]

[Text] Beijing, 27 Jun (RENMIN RIBAO)—The statistical data relating to major economic indexes of different localities released by the State Statistical Bureau, the State Planning Commission, the Ministry of Finance, and the People's Bank of China show that from January to May this year, the value of investments in fixed assets continued to decrease, the total volume of credit continued to expand, and the growth rate of the total amount of wages remained high, but there was no substantial improvement in the economic results in the industrial sector.

**The growth rate of the value of investments in fixed assets continued to decline.** From January to May, the value of investments in fixed assets made by enterprises under the ownership by the whole people totaled 44.16 billion Yuan, a decrease of 7.1 percent compared with the corresponding period last year. Twenty-two areas in the country witnessed declines in the growth rate, and the margin of decline exceeded 20 percent in Hubei, Yunnan, Ningxia, and Beijing. The value of investments in fixed assets increased in eight areas compared with last year; for instance, the growth for Hainan was about double that of last year, while Tibet witnessed a 50-percent growth. As far as the value of completed investments is concerned, Guangdong, Shanghai, Liaoning, Jiangsu, Sichuan, and Shandong topped other areas.

The aggregate value of investments in local projects from January to May amounted to 24.03 billion yuan, an increase of 4.9 percent compared with the corresponding period last year. Local projects' share of the country's total value of completed investments stood at 54.42 percent, which was still too high. Although the investment scale was reduced in the first 5 months of this year, the margin of reduction was far below the targeted 28.8 percent.

**The volume of credit continued to expand.** The total amount of all kinds of loans extended by banks increased monthly since the beginning of this year and soared to 1,065 billion yuan by the end of May, an increase of 9.8 billion yuan compared with the figure recorded at the beginning of the year. The amount of loans increased to a varying extent in 16 provinces, municipalities, and autonomous regions. The margins of increase in loans in Shanghai, Guangdong, and Liaoning topped the country, and the increase in the value of loans in these three places accounted for 72.6 percent of the total increase for the whole country. Meanwhile, the amount of loans decreased to a varying extent in 14 areas, especially in the three provinces of Shandong, Jiangsu, and Henan. At present, given the sustained high aggregate demand, it is

necessary to tighten control over credit. While keeping the total volume of credit under control, the bank should try to ease the shortage of funds by readjusting the credit structure.

**The growth rate of the total amount of wages remained high.** The total amount of wages for January to May was 96.38 billion yuan, an increase of 24.6 percent over the corresponding period last year. For seven areas the growth rate was higher than the country's average level. In this regard, Guangdong Province topped the country with a 41.7-percent growth; for Tianjin, Liaoning, Fujian, and Shandong, the margin of growth exceeded 26 percent.

**The industrial labor productivity continues to grow slowly.** From January to May, the total labor productivity of industrial enterprises practicing independent accounting under the ownership by the whole people increased by 3.4 percent over the corresponding period last year. Twenty-six of the 29 areas (excluding Xizang) witnessed an increase in labor productivity over the corresponding period last year. Labor productivity decreased in only three areas, namely, Hunan, Jiangsu, and Hubei, compared with the corresponding period last year.

**The profit and tax earning rate for sales of industrial goods continued to decline.** From January to May, the profit and tax earning rate for sales of goods of industrial enterprises under the ownership by the whole people and covered by the state budget was 17.53 percent, a decrease of 2.23 percent from the same period last year. In this regard only 10 of the 29 areas witnessed a slight increase, while the rest suffered decreases to a varying extent. Tianjin municipality had the widest margin of decrease in this respect.

**Production costs of comparable industrial products increased by a wide margin.** From January to May, production costs of comparable industrial products increased by 18 percent, an increase of 11.3 percent over the corresponding period last year. The costs increased in all areas across the country. The margin of increase for 18 areas was higher than the country's average level, and that for Beijing, which was recorded at 24.5 percent, topped the country.

#### **Problems Concerning Capital Goods**

**Setbacks in Developing Capital Goods Market**  
40060651 Beijing JINGJI CANKAO 21 Jun 89 p 2

[Article by Wang Zhi 3769 2535: "Economy Overheats, Supply and Demand of Goods and Materials Shows Imbalance; Setbacks in Development of Capital Goods Market; Departments in Charge Emphasize Strengthening of Planning and Management"]

[Text] According to information released by the National Bureau of Statistics, 39,800 marketing posts have been established in the national goods and materials network, and 400 capital goods trading centers of



various sizes have been established around the country at the level of local markets or higher. The entire nation's capital goods trading centers and the various specialized goods and materials markets have, by and large, formed a network.

However, because of the overheated economy, some problems have arisen in the capital goods market. First, the gap between supply and demand for capital goods has widened continuously. According to preliminary forecasts, the nation's demand for the five nonferrous metals copper, aluminum, lead, zinc, and tin, will top 2.3 million tons this year, while domestic supply reaches approximately 1.8 million tons. The five-million-ton gap is more than 20 percent of demand. Due to a drop in production and reduced exports in the first quarter of this year, consumption of 12 of the 22 major types of goods and materials (55 percent) exceeded new supply. Among them, the consumption of coal exceeded new supply by 7.2 percent, copper by 13.9 percent, and finished copper and aluminum by 6.3 percent. The sustained widening of the gap between supply and demand has caused the market to become steadily less attractive.

A second problem is that macroeconomic controls have been ineffective, and the capital goods market has been in chaos. Particularly pronounced has been a serious problem involving illegal resale of capital goods. In the last two years there has been a notable increase in the number of work units dealing in capital goods. A type of company with neither work site nor capital, dealing exclusively in the illegal resale of capital goods or high-demand commercial items, has appeared. A problem has also cropped up involving goods and materials units that have resold capital goods at a profit, or taken goods and materials intended for the state plan and resold them outside the state plan. The provinces of Heilongjiang and Hunan alone closed down over 1000 companies engaged primarily in the illegal resale of capital goods. Last year, the first group of major cases investigated by national goods and materials departments involved 31 instances of illegal resale of capital goods, and there were a total of 19 cases involving resale of steel and automobiles. The infrastructure development department, in Sichuan province's Department of Commerce, resold state-allocated steel and cement at an inflated price and reaped over three million yuan in illegal profits. Instances of "private profiteering" are too numerous to mention individually. Every type of illegal maneuver is used (including bribery and kickbacks) to buy up scarce goods and materials. This does not only have a negative impact on the capital goods market, but also has a deleterious effect on public morals.

The consistently high price of major capital goods has produced management difficulties for the capital goods market. According to statistics put out by the Ministry of Materials, the general price index for the 15 major capital goods markets in 1988 increased by 21.5 percent over the previous year, which was the second steep price

rise since 1985, and the number of items affected by the price rises was unprecedented. In 1989, prices in the capital goods markets have remained high, and there appears to be momentum for further price rises. In the first quarter, the general price index for the major capital goods markets increased by 29.4 percent over the previous year.

At the same time, contracts to supply the state with products earmarked for unified distribution have been fulfilled at a continually decreasing rate. In 1988, out of 18 types of products earmarked for unified distribution, state contracts on 17 types, or 94.4 percent, went unfulfilled. The contract fulfillment rate for 15 products, or 83.3 percent, was lower than during the previous year. During recent years the occurrence of this type of phenomenon has steadily increased in frequency. During the first quarter of this year, not only did state supply contracts for 18 of these products go unfulfilled, but the fulfillment rate for 16 (88.9 percent) of them was lower than in the same period of the previous year. This decrease was greater than that of any recent year during the same period. There were only five products for which the fulfillment rate was over 90 percent, including coal, finished aluminum, sulfuric acid, nitric acid and caustic soda. Contract fulfillment rates on most other products fell between 70 and 80 percent, and the fulfillment rate for lead was only 68.4 percent.

Another problem is the fact that exports of some capital goods have gone out of control. Domestic procurement prices for raw materials and other primary products are too low, export authority has been handed to people at the local level, and in budgetary matters everyone "eats dinner from his own pot" (i.e.—revenue and expenditures are divided between the central and local governments, and each is responsible for balancing its own budget). Under these conditions, some localities have exported many goods and materials which are scarce on the domestic market in order to maximize their private benefit, thereby aggravating disparities between supply and demand in the domestic market. According to customs statistics, export volume of 20 out of 25 types (or 80 percent) of capital goods has exceeded the state-allowed limit. Of these, the uncontrolled export of copper, aluminum, finished copper, finished aluminum, pig iron, scrap steel, ferrosilicite, and ferrochrome was particularly serious. The 49,000 tons of copper that were exported exceeded planned copper exports by five times; the 130,000 tons of aluminum exported exceeded the plan by 1.9 times; the 44,000 tons of finished copper by 1.5 times; the 2.34 million tons of pig iron by 2.3 times; the 690,000 tons of scrap steel by 30 times; and the 330,000 tons of ferrosilicite by 3.7 times.

Departments in charge have stated that with the problem of supply and demand disparities growing worse every day, the planning and control of scarce goods and materials must be strengthened. Enterprises dealing in goods and materials must not take profits as their primary objective, but should stress a high rate of

fulfillment of supply obligations and a quick capital turnover rate. They must implement a plan to protect capital and seek low profits, and strictly forbid sales outside the state plan of goods and materials earmarked for distribution according to state plan. They must correct the excessively high proportion of capital goods hung up in entrepot trading, which is being carried on by enterprises that deal in goods and materials (it reached 42.9 percent in 1988, or 2.3 percentage points higher than the previous year), in order to raise the social and economic benefit rendered by increased direct deliveries, quicker turnover, of goods and materials.

**Short-Term Slump in Capital Goods Trading**  
40060651 Beijing JINGJI CANKAO 21 Jun 89 p 2

[Article: "Price Controls Difficult to Implement, Market Unstable; China's Capital Goods Market Will Undergo Short-Term Slump."]

[Text] CEI has reported that the "Spring Quarter Capital Goods National Trade Fair," which was held in late May in Kunming, sent out an important signal: China's capital goods trading is in a trough. Experts are predicting that this situation may persist for a time, and the capital goods market will suffer a short-term depression.

Since the national government began to set a higher upper price limit for capital goods outside the state plan and implemented the monopoly, undeniable progress has been made in decreasing the number of intermediate links in the capital goods supply chain, preventing the illegal buying and selling activities of profiteers, and bringing a halt to exorbitant price increases. However, many members of the economic community who participated in this trade fair feel that because actual market prices exceeded the price ceilings long ago, the price ceiling on capital goods outside the state plan has caused difficulties to enterprise sales. This has caused the capital goods market, which was not sound enough in the first place, to contract.

Because the price ceiling only applies to final products, but not to such primary products as minerals, energy, and some ancillary materials, enterprises everywhere, facing mounting production costs, have become less enthusiastic about the production of capital goods outside the state plan. Some medium and small-size manufacturing enterprises have even had the experience that the more they exceed their quotas, the more money they lose. Goods and materials, as well as trading centers everywhere indicate that at present, apart from a small number of large enterprises that are still able to deliver products at the highest allowed price, the great majority of medium and small-sized enterprises no longer deliver products outside the state plan. The lack of goods will certainly result in a depressed market.

Representatives who participated in the Kunming trade fair revealed that enterprises and departments everywhere that deal in goods and materials all have significant quantities of high-demand products in their inventories, but most were assembled before the price ceilings went into effect, and losses would be incurred if they were sold at the current controlled prices. Therefore, they have sat on their inventory and awaited a better opportunity, keeping watch to see if there is a chance that the price controls will be changed. Also, since the announcement of the price control policy, the enthusiasm of enterprises everywhere dealing in goods and materials has been dampened. Goods within the price ceiling are nowhere to be found, and the enterprises have not dared buy those which exceed the price ceiling. With commercial channels not functioning, it is unlikely the market will flourish.

Representatives of many goods and trading centers indicate that because the actual prices for many capital goods outside the state plan exceeded the price limits long ago, some localities have begun to adopt "flexible methods" to spark the enthusiasm of those on both the supply and the demand sides. Some have engaged in "cooperative exchanges" in which barter is used to avoid the restrictions of price controls. Some have observed the price ceilings in form only, while tacking on high processing, transport, and other miscellaneous fees. Some have simply ignored the price ceilings. Members of the economic community feel that if this situation continues for long, the capital goods market may spin out of control.

All the representatives who participated in this spring's trade fair indicated that if the capital goods market is to flourish, apart from improving the price control policy, a set of coordinated steps must be taken.

## PROVINCIAL

**Ningxia Reports on Industrial, Agricultural Production**

HK0407124189 Yinchuan NINGXIA RIBAO in Chinese  
17 Jun 89 p 1

[Report: "Autonomous Regional Party Committee, Government Hold Joint Meeting To Analyze and Discuss Situation in the Region's Industrial and Agricultural Production"]

[Text] The autonomous regional party committee and people's government held a joint meeting on the afternoon of 15 June to analyze and discuss the region's situation in industrial and agricultural production. The leading comrades from the party committee, advisory commission, the Standing Committee of the people's congress, the government, and the CPPCC Committee of the autonomous region and responsible persons from departments in charge of economic management who attended the meeting agreed: From January to May 1989, the region's industrial and agricultural production developed quite steadily but in the second half of the

year, the situation facing us will be considerably grimmer and the difficulties very great. The meeting urged the broad masses of cadres, workers, and peasants in all localities and departments to be mentally prepared to exert greater efforts to overcome greater difficulties, and to consider every possible way to comprehensively fulfill industrial production tasks and to reap an overall bumper harvest in agricultural production.

Since the beginning of this year, the vast numbers of employees on the industrial, communication, financial, and trade front in the region, firmly responding to the call of the party Central Committee and the State Council to curb turmoil, have removed obstacles, stood fast at their posts and made strenuous efforts to overcome shortages in funds, carrying capacity, raw and semifinished materials, and power, thus promoting the steady development of production and circulation. According to statistics provided by the departments concerned, the total industrial output of industrial enterprises at and above the township level in the region from January to May amounted to 146.262 million yuan or an increase of 16.3 percent over the same period of the previous year. Of the 43 major products put on the assessment list, 30 registered growth as compared with the corresponding period of the previous year. Economic results were continuously improved. The total industrial output value as well as profits and taxes created by industrial enterprises within the state budget increased by 14.8 percent and 28.2 percent, respectively, over the same period of the previous year; market supply was in fairly good shape; the aggregate retail volume of social commodities amounted to 114.41 million yuan, up 17.6 percent. In foreign trade, the export sector registered a fairly big increase and \$18.81 million was earned through exports, up 22.6 percent; and a big increase was recorded in the region's financial revenues. As the entire society has gained a better understanding of the status of agriculture as the foundation and therefore increased input in materials, funds, and science and technology in agriculture, the region's agricultural production situation is also fine. The area of land sown to grain crops has been expanded and the crops are doing well. If there are no serious natural disasters in the days ahead, the task of producing 1.6 billion kilograms of grain as prescribed in the state plan will be overfulfilled, as one may well expect.

After hearing the reports submitted by a regional department concerned on the region's industrial and agricultural production situation, participating comrades unanimously agreed: From January to May, the region's industrial and agricultural production developed rather steadily, but the difficulties facing us in the days to come will be considerably great. Especially in organizing industrial production, we are facing unfavorable factors, such as serious shortages in funds and raw and semifinished materials, strained railway transportation, a pronounced imbalance in power supply and demand, and increased losses suffered by some enterprises. Moreover, in agricultural production there are natural calamities,

such as a serious breakout of plant diseases and insect pests, and a possible breakout of wheat "dry-heat wind." For this, we must fully understand the grimness of the situation in the days ahead and on no account must we be unrealistically optimistic, and treat the situation lightly.

In view of the current problems in industrial and agricultural production, participating leading comrades spoke, one after another, and suggested appropriate solutions at the meeting. Shen Daren, secretary of the autonomous regional party committee and Bai Lichen, chairman of the autonomous regional people's government made a speech separately at the meeting. Comrade Shen Daren said: "In the days ahead, if there are no serious natural calamities, a bumper harvest can be expected in our region's agricultural production but on no account must we lower our guard and become careless. A bumper harvest in sight does not mean a bumper harvest already in hand. We must strive for a bumper harvest by fighting natural calamities. Industrial production in the second half of this year will be confronted with considerable contradictions and problems. Therefore, what counts here is to build confidence, resolve contradictions, and overcome difficulties through subjective efforts. We must seriously study Comrade Deng Xiaoping's important speech, unify our thinking, deepen our understanding, and guide our reform and construction with it. All localities and departments are encouraged to make every effort to tackle difficult problems and key tasks, and achieve good results by taking effective measures. We should rely on the broad masses of employees in launching the campaign to increase production, practice economy, raise revenues, and reduce expenditures, overcome difficulties, work hard to fulfill industrial and agricultural production plans, and greet the 40th anniversary of the founding of the PRC with concrete actions.

On the question of how to overcome shortages in funds, carrying capacity, power, and raw and semifinished materials, and how to bring about an upswing in industrial and agricultural production for the second half of this year, in his speech Comrade Bai Lichen stressed the need to do a good job in the work of the following fields: First, leading bodies at all levels should change their workstyle and strengthen macroeconomic control means on the basis of thorough investigation and study, and conscientiously help enterprises in solving some practical problems. All localities, departments in charge of economic management, and enterprises should earnestly size up the current production situation and work out concrete methods to solve existing problems. Second, because the region is short of funds, carrying capacity, power, and raw and semifinished materials, it is necessary to work out some special policies to ensure the normal production of large enterprises that promise good economic results, of enterprises able to earn foreign exchange through exports, and of enterprises able to provide effective supply for the people in their daily life. Third, in view of the situation in which shortages in

funds, carrying capacity, power, and raw and semifinished materials can hardly be alleviated in the short term, we should be determined to readjust the production structure. Fourth, we should give a great deal of attention to undertaking several development projects in agriculture and key capital construction projects in industry in order to boost our capability for continued economic development. Fifth, it is necessary to conduct education among the broad masses of employees in the current situation, in the notion of "one center, two basic points," and in plain living. Through powerful ideological and political work, we should unify people's thinking, deepen their understanding, bring the drive of the broad masses of employees into full play, and win new victories in construction and reform.

## FINANCE, BANKING

### Causes, Solutions for Fiscal Difficulties

40060537 Kunming JINGJI WENTI TANSUO  
[INQUIRY INTO ECONOMIC PROBLEMS] in  
Chinese No 3, 20 Mar 89 pp 15-20

[Article by Liu Xiuwen 0491 0208 2429, Chen Juqi 7115 1446 1142, and Jiang Xiaozhi 1203 1420 5347: "An Examination of the Causes of and Solutions to the PRC Government's Fiscal Difficulties"]

[Text] The PRC government's present fiscal difficulties have become a severe hindrance to China's reforms and development. It seems that the doubts caused by the PRC government's financial predicament can be summed up in the following three questions: 1) Did the government of the PRC make a strategic mistake by choosing a reform sequence that began with the profit motive and took distribution relations as its breakthrough point?; 2) What was the real cause of the PRC government's financial predicament?; and, 3) What practical solutions can the PRC government use to extricate itself from its predicament? In order to answer these basic questions, we must first briefly review the course of China's decade of fiscal reform.

### I. Thoughts and Reflections

The PRC used to use a fiscal system of centralized revenue and expenditure. Once it started economic reform in 1978, it chose a reform sequence that began with the profit motive, took distribution relations as its breakthrough point, and developed in the following three directions: a) It signed production contracts with rural households to restore peasants' production and management decisionmaking power, while raising the procurement prices of agricultural sideline products to arouse their production initiative; b) It used tax reduction and profit concession to expand enterprise decision-making power and developed a contract system to restore their production, management, and investment decisionmaking power; 3) It used a separate fiscal system for local governments to partially restore their economic decisionmaking power.

These reform advances that began with the profit motive produced the following three tangible results: 1) the percentage of public revenue in national economic income distribution dropped 12 points to only 22 percent by 1987; 2) central and local finance evolved to the point where they account for roughly 50 percent each; 3) budgeted and extra-budgetary revenue and expenditure also evolved to the point where they account for roughly 50 percent each. It can be objectively stated that the PRC government's fiscal difficulties were clearly caused by devolving fiscal authority to lower administrative levels and beginning fiscal reform with profit motives, such as tax reduction and profit concession. The parties concerned and some comrades now usually blame the PRC government's fiscal difficulties on its past choice of a reform sequence. Was this the real cause of the problem?

A logical reform sequence should initially have generally changed the mechanism, readjusted profits in the course of changing the mechanism, and controlled macroeconomic distribution plans when reform began. This would have been an ideal choice and many scholars from both China and abroad made similar suggestions at the time. Although reversing the sequence and putting the profit motive first increased income, it was liable to cause too much distribution and inflation due to the lack of a profit limitation mechanism, hinder the growth of the market and the changeover of the mechanism, and make it hard for economic reform to continue to advance.

But there has never been an example of a socialist country that carried out reform in this ideal sequence. On the contrary, they have all, without exception, started by readjusting and reforming their distribution relations and putting the profit motive first. Moreover, they have all felt the adverse effects of violating the ideal sequence. What was the cause of this? Although all countries have different conditions, China's past choice was inevitable.

From the perspective of the distribution relations between the government and individuals, "left" deviations between 1957 and 1987 held China back for almost 20 years. Although China also developed somewhat during this time, our whole society was stagnant and 60 yuan was the average annual income of peasants and the average monthly income of urban staff members and workers. This did not change and Chinese people continued to live below the poverty line by international standards for almost 20 years." <sup>1</sup> Although wage adjustment and reform was carried out in those years, wages still certainly ended up at a very low level. It can be said that the 20 years of wage freeze and low income was the major problem that existed in the period prior to 1978. Moreover, it made it inevitable that China's economic reform would begin with increasing the income of staff members, workers, and peasants.

Not only did economic reform begin with the profit motive, but enterprise reform was also a process of financial tax reduction and profit concession. The State Council ratified the "Ministry of Finance Provisions on



the Trial Use of Enterprise Funds by State-Owned Enterprises" on 25 November 1978. Then, as enterprises carried out profit retention, profit responsibility, progressive responsibility increases, the substitution of taxes for profits, and the contract management responsibility system, the percentage of profits that enterprises kept and budgeted themselves increased constantly. The proportion of realized profits that enterprises kept was 12.3 percent in 1979, but had risen to 40 percent by 1987. Enterprises kept only 9.6 billion yuan of their profits in 1979, but this figure had grown to 48.9 billion yuan, or an increase of more than 5-fold by 1987. The increase in profits kept by enterprises greatly aroused the production initiative of enterprises and was an effective way to speed up economic growth.

It should be pointed out that profits are the point at which authority and responsibility come together and that fiscal authority was the first authority to be expanded. The authority to keep profits is a particular expression of finance. Thus, fiscal authority was the first authority that had to be expanded. The authority to keep profits should be the key enterprise decisionmaking power. Of course, if enterprises have only the authority to keep profits without other corresponding authority or corresponding authority in other areas, it is hard for them to genuinely realize and bring into full play the effects of this authority. This is precisely the problem that is facing us now. But this and the choice of a reform sequence that began with the profit motive are obviously not the causes of the PRC government's fiscal difficulties. In fact, the present austerity program will unavoidably conflict with the spirit of enterprises having the authority to set their own investment policy in line with their financial capacity. This will become a basic conflict for reform advances. From this perspective, genuine fiscal reform has just begun and urgently needs to be deepened. Thus, the PRC government's fiscal difficulties were caused not by the beginning of, but rather by the delay in the process of carrying out, fiscal reform.

## **II. The PRC Government's Fiscal Difficulties Were Caused, in the Final Analysis, by the Incompleteness of Fiscal Reform**

Finances can be managed easily only when production is increasing and the economy is growing. International experience also shows that public revenue and economic growth can be more or less synchronized when the economy is growing normally, as in countries such as Japan. But a situation of less public revenue and increased expenditure has appeared in China in recent years. Statistics show that public revenue for 1987 increased 3.8 percent over 1986, or almost 13 percent less than the growth of the GNP and price increases. Although public revenue for the first half of 1988 increased 10.2 percent over the same period in 1987, its absolute value actually decreased because of price increases.

The PRC government's fiscal difficulties were caused not only by decreasing revenue, but even more so by the balance of revenue and expenditure, and were an expression of successive years of financial deficits in which revenue did not equal expenditure. Since reform and growth have been China's main themes for the past decade, only an analysis that takes into account the general setting of the following reform and growth difficulties can, of course, help us fully understand their cause:

### **A. Ineffective Revenue Generation Methods**

In order to coordinate enterprise reform and increase enterprise decisionmaking power, the state had lost over 100 billion yuan to state-owned enterprises by 1987 in the process of tax reduction, profit concession, and before tax loan repayment. This caused the percentage of enterprise realized profits that were paid into public revenue to constantly decrease and the state to be unable to get the major proportion. For instance, state-owned industrial enterprises realized profits of 57 billion yuan and paid 44.5 percent of this or 25.4 billion yuan, into public revenue in 1986. Industrial production grew 17.2 percent in 1987 and realized profits should have been 66.8 billion yuan if calculated according to a synchronized growth rate. But since the proportion paid into public revenue dropped to 37.7 percent, only 25.1 billion yuan was actually paid in 1987. In other words, since all production growth and increased profits were kept by enterprises and loans were returned to enterprises in 1987, public revenue did not charge enterprises a single cent and could only increase a little by circulating taxes. At the same time, the phenomenon still existed of "production reporting good news and commerce reporting bad news." But this certainly was not the basic cause of the fiscal difficulties, because tax reduction and profit concession were unavoidable for a time in the reform process. The major problem was that past tax reduction and profit concession finance and enterprise reform were not coordinated with the perfection of a management mechanism within enterprises, and genuine revenue generation methods were not established and can even be said to have been overlooked.

The losses incurred by China's industrial enterprises peaked twice in the decade from 1978 to 1987. The first peak occurred in 1982 and the second one is happening now. The losses incurred in 1987 reached 7.575 billion yuan, surpassing 1982's 5.582 billion, and the losses incurred in the first 5 months of 1988 surpassed those incurred in all of 1985. Calculations show that if profit-making enterprises' product losses of more than 7.242 billion yuan were included, 1987's losses would actually have amounted to more than 17 billion yuan, or 17.9 percent, and those in the first 5 months of 1988 were actually more than 20 percent.

From the perspective of an overall key productivity comparison, China's overall key productivity increased only 0.6 percent and accounted for only 8.2 percent of

output growth in the Sixth 5-Year Plan, but it increased 3.8 percent and accounted for 18.9 percent of output growth in the First 5-Year Plan. From the perspective of an international comparison, China's overall key productivity increased only 0.9 percent and accounted for only 10.5 percent of output growth from 1979 to 1986. These figures were far lower than Japan's of 4.5 percent and 41.3 percent, respectively, in the 1960s; lower than Brazil's of 3.7 percent and 53.7 percent, respectively, in the 1950s; and even lower than the Soviet Union's of 1.3 percent and 28.7 percent, respectively, in the 1950s. Even though there are some nonconstant factors here, both comparisons still show that China's economic profits in the past decade of reform, whether making a vertical or horizontal comparison, have been low and declining. It must be said that tax reduction, profit concession, and revenue generation methods not having been well established, and with efficiency not increasing as planned, were the major causes of the PRC government's difficulty in extricating itself from its financial predicament.

#### **B. Blocked Revenue Collection Channels**

Even though tax revenue is not a perfect regulatory lever, it is undoubtedly the major means and method of collecting revenue. Tax reform has achieved major successes and become the major guarantee of organizational revenue in the last decade. But it must be said that, in addition to various causes such as system defects, a major cause for revenue collection channels being blocked in recent years is that enterprise income taxes have decreased yearly and circulating taxes have slowly increased.

The output value of state-owned industrial enterprises has increased less than that of collective, private, individual, and foreign-invested enterprises [FIEs]. For instance, China's 1987 gross value of industrial output increased 17.7 percent over 1986, with the output value of state-owned industrial enterprises increasing only 11.3 percent, while the industrial output value of collective, private, individual, and FIEs increased 25.7 percent. The output value of state-owned industrial enterprises increased less, but they paid more revenue, while the industrial output value of collective, private, individual, and FIEs increased more, but they paid less revenue. In addition to the fact that collective, private, individual, and FIEs enjoyed more preferential taxes in the first few years after they were set up, a major cause of their paying less revenue was the imperfections in regulations, such as distribution, tax revenue, and accounting. State-owned industrial enterprises also had many similar regulation imperfections. They underwent general financial and tax inspections in 1985, 1986, and 1987, when it was discovered that 70-80 percent of them in all areas had evaded taxes of more than 10 billion yuan and the tax evasion trend was growing every year.

In addition, even though the relationship between public revenue and price increases is very complex, it seemed that circulating and income taxes should generally

increase along with price increases. But due to the effects of various factors, such as system defects, policies, and tax collection regulations, price increases actually caused a severe loss of revenue. While the dual price system is unavoidable now, it presents many opportunities for both "official" and "private" profiteering. Since circulation links have been nominally reduced but actually increased and charges by intermediate links have increased level by level, some revenue is being stolen by "profiteers," some is being distributed to staff members and workers, and the state is unable to collect what it should. Data surveys of recent years by relevant departments show that a very large part of increased revenue due to price increases is being transformed by enterprises into cost increases, eroded, and balanced off, a considerable part is being taken by peasants, individual enterprises, and "profiteers," and another part is becoming bank and enterprise income. Public revenue is very small and public finance also has many increased expenditures because of price increases.

#### **C. Too Many Revenue Use Channels**

The effects of the PRC government's long use of a "centralized revenue and expenditure" system of public finance has made it hard to thoroughly clarify the distinction between central and local responsibilities and powers in China's present financial system. Even though some improvements and breakthroughs were made in breaking free of centralized revenue in the past decade of reform, centralized expenditure is still in effect. Although the 3d Plenary Session of the 11th CPC Central Committee took a series of steps to increase local and enterprise decisionmaking power, the matter is still far from being settled. Not only is central finance responsible for unforeseen expenditures, such as extraordinarily serious natural calamities, but it is also responsible for some purely local expenditures, such as local urban construction and modernization of old cities, repairing local cultural relics and temples, and subsidizing extra grain and oil procurement and the operation budgets of border areas. About 20 billion yuan a year is assigned by central finance to pay for these things. In addition, central finance is also responsible for formulating regulations on things, such as wage adjustment, traveling expense standards, and all operating charge standards. Not only is this unrealistic for a large country like China, but it also causes many difficulties in planning and enforcing the current responsibility system, and worsens the central government's fiscal difficulties as well.

The budgeted expenditure for investment in state-owned fixed assets has accounted for a very small percentage of the overall social investment in capital construction for many years and, in particular, has been gradually decreasing in recent years. But it is still the biggest national budgeted expenditure and a burden that state finance cannot bear.

It must be acknowledged that the present shortage of investment in key capital construction projects is an objective fact. But we should not try simply to increase

state budgeted investment without considering the state's weaker financial capacity since it devolved fiscal power to lower administrative levels. In fact, the shortage of investment in key construction is due neither to a low overall accumulation nor to a deficiency in state budgeted investment source plans. Rather, it is due to the use of overall investment not expressing the distribution principle of "ensuring priorities and taking everything into consideration" and to the increase in non-key construction investment.

But, for many years, public finance has still taken the responsibility for these expenditures, which are now beyond its present financial capacity, in order to ensure its underlying strength. In particular, since the "capital construction fund system" was put into effect, these expenditures have basically become a mandatory outlay similar to regular budgeted expenditures, and are very hard to cut back. The consequences of being forced to either change its outlay structure or practice inflationary policies are both hard for public finance to accept.

#### **D. Confused Revenue Management Methods**

The present fiscal reform has, on one hand, devolved fiscal authority to lower administrative levels and sharply increased extra-budgetary funds while not correspondingly reducing expenditures, which has tended to increase deficits. On the other hand, since the state has dumped the whole job of providing circulating funds for expanded reproduction to banks, regarded banks as a second national budget, ordered them to grant investment loans, and slowed its turnover and increased its use of enterprise circulating funds, loans have grown faster than deposits. While the state had only 290.5 billion yuan in long-term credit fund sources in 1986, it still spent as much as 307.7 billion yuan. While it was hard for the state to balance financial deficits with tight credit revenue and expenditures, it created new problems for itself by seeking to create a balance not by tightening overall demand, but particularly by reducing the investment in fixed assets and hoping to raise funds through issuing a huge amount of bonds to maintain a fixed scale of construction.

It can now be seen that issuing bonds basically pulled all kinds of deposits and savings from banks. Consequently, bank fund sources decreased while their loans could not be correspondingly reduced and it was certainly hard for public finance to make up credit revenue and expenditure imbalances with budgeted currency. Public finance was forced to issue more currency as its only solution and to put an increasing amount of extra loans into circulation to meet overheated public demand. It can be said that since banks had huge loan imbalances, public finance's raising of a huge amount of money was actually a reckless inflation strategy, which shows why it was hard for central finance to continue it.

### **III. Practical Solutions for Extricating the PRC Government from Its Financial Predicament**

#### **A. It Must Be Clarified That the Strategic Aim of Financial Management Reform Is Not To Decentralize Fiscal Authority**

Whether fiscal authority should be centralized or decentralized is a strategic aim that must be clarified in order to carry out fiscal reform. It is directly related to the choice of a system model, the formulation of policy steps, and the distribution of state finances. In line with the proposals of China's economic reform to increase enterprise vitality, perfect the use of market forces, and develop a planned socialist commodity economy, the general development trend of China's economic reform should be to expand enterprise decisionmaking power, increase local financial resources, and fully develop a commodity economy that is guided by market forces. These objective demands mean that China's fiscal reform should develop in the direction of increasing local fiscal authority and suitably decreasing central finance's fiscal authority and financial resources. But in line with the strategic aim of China's economic development, the building of key infrastructures, such as power and communications facilities, must be ensured to give underlying strength to our economic vitality. These objective demands also mean that central finance's regulation and control forces must be strengthened and appropriately centralized and not too decentralized.

#### **B. Fiscal Reform Must Be Coordinated With Other Economic Reforms**

Economic reform is in the category of systems engineering, of which fiscal reform is an organic component. Moreover, public finance is determined by the economy and is an overall reflection of the national economy. If fiscal reform alone is "ahead of" other corresponding complete sets of economic reforms, economic and financial relations cannot be rationalized. As stated above, the PRC government's present fiscal difficulties are highly related to the fact that fiscal reform is "ahead of" and not coordinated with other reforms.

Our experiences in recent years show that although many reform steps aroused initiative and achieved good results, they also changed the distribution structure of national income and increased fiscal difficulties.

Many countries throughout the world subsidize the prices of agricultural products, but it is worth studying the scope and scale of this subsidization. Price subsidies for the three items of grain, cotton, and oil alone have increased sharply in recent years to 30 billion yuan. If added to the price subsidies for non-staple foods, such as vegetables for city dwellers, that have been unable to be eliminated despite a desire to, price subsidies amount to a huge sum of money. Thus, public finance has been caught in a trap of price subsidization.

Giving financial support to imports and exports, including support in areas such as tax adjustment, has become a common phenomenon in all countries. But the scope and methods of support must still be studied. China's domestic prices are not in line with international market prices. Roughly, our domestic prices are lower for primary products and higher for manufactured products than international prices. Exporting primary products may be profitable, but it cannot be carried out on a very large scale because of resource limitations. Exporting manufactured industrial goods incurs losses; however, reducing it can cause a decrease in exports and an increase in the balance of foreign exchange payments deficit, while increasing it also causes a sharp rise in financial subsidies and a reverse cycle. From a long-range perspective, China cannot remain forever a country that exports its resources, but must increase its exports of manufactured industrial goods to force its way into the international market. Thus, how to coordinate fiscal reform with other economic reforms is a task of top priority.

### **C. The Relationship Between Macroeconomic Regulation and Control and Microeconomic Stimulation Must Be Handled Correctly**

The relationship between macroeconomic regulation and control and microeconomic stimulation involves the relationships between central and local finance and between state and enterprise finance. There are certainly conflicts between them in the distribution of financial resources. Coordinated development of the national economy can only be speeded up by giving consideration to both.

Through various kinds of reforms in the last decade, enterprise decisionmaking power and finances have been gradually increased, enterprise management vitality has been greatly stimulated, and national economic strength has also grown considerably. But these changes in distribution relations between the state and enterprises inevitably caused a decrease in the share of state revenue in national income. Thus, further deepening of enterprise reform will certainly be closely linked to financial distribution. It should be acknowledged that quite a few enterprises have been able to exist and grow only with state finance tax reduction, profit concession, and before tax loan repayment. Moreover, the tax reduction and profit concession given to some enterprises far exceed the limits of national policy. This method of supporting the existence and growth of enterprises at the cost of reducing state revenue is certainly effective from the short-range perspective of an enterprise. But it causes the following problems: 1) It limits the regulation and control capability of state, and particularly of central, finance; and 2) it makes it hard to improve the structure of the national economy. The investment orientation of all regions and sectors in projects that earn high profits and produce desired results for only their areas worsens

the shortage of infrastructure, such as power, transportation, and raw and processed materials, causes problems for state macroeconomic regulation and control, and causes economic growth to be less coordinated.

In order to keep the method of tax reduction and profit concession from growing arbitrarily on the one hand, the policy should be revised, before tax loan repayment should be changed as quickly as possible to after tax loan repayment, and distribution relations between the state and enterprises should be standardized as much as possible. Moreover, state tax laws should be improved, public finance budget regulations should be strengthened, and enterprises should have to compete on equal terms. On the other hand, the problem should be settled first from the perspective of the financial system. Since the phenomenon of tax reduction and profit concession is particularly serious in areas that should be paying the most revenue to the state, adoption of a system of fixed responsibility could be favorable to restricting it.

Enterprise profit motives have been strengthened through a decade of reform. But since there is still no mechanism within enterprises to combine long- and short-term interests, there has been a very clear tendency for enterprise activity to become more short-term oriented, only earning profits but unable to withstand losses. Faced with these conditions, microeconomic stimulation can no longer, in fact, take the path of tax reduction and profit concession. Efforts should be made to deepen reform by changing the operating mechanism, restructuring the microeconomic foundation, and making enterprises truly become relatively independent commodity producers. Enterprises should be allowed to keep more profits based on improvements in their management and efficiency, and staff members and workers should get more pay based on improvements in their labor quality and quantity. Only in this way can the conflict between fiscal difficulties and enterprise stimulation be settled properly.

### **D. The Administrative Structure Should Be Streamlined and Expenses Should Be Cut Down**

The major steps that are taken to resolve the fiscal difficulties of governments at all times and in all countries are streamlining the administrative structure and cutting down on expenses. But even though the PRC government has been experiencing fiscal difficulties in recent years, its administrative outlay has still been increasing constantly. Taking the Sixth 5-Year Plan period as an example, expenditures in 1986 were about 95 billion yuan higher than in 1981, for a yearly average increase of 13.9 percent. About 50 percent of this higher outlay was for staff. It should be pointed out that the basic cause of the burden of "feeding" staff having become increasingly heavier was that fiscal reform was not coordinated with political reform.



Although the PRC government has taken various steps and issued many orders in recent years to cut down its administrative outlay, they have not basically worked as planned. In fact, since administrative bodies have been constantly diversifying and increasing and administrative staff has been rapidly increasing, reliable steps should be taken to reduce the administrative outlay. The minimum condition for reducing the administrative outlay of 10 percent would be cutting down administrative staff at least 10 percent. Otherwise, it would be very hard to carry out the task of reducing the administrative outlay, since prices are rising and all expenditures are increasing. Of course, other complete steps must be taken in addition to reducing the administrative outlay and streamlining the administrative structure, but we have no other options at present.

**E. The PRC Government Must Perfect Its Financial and Economic Legislation and Deepen Its Fiscal Reform To Extricate Itself From Its Financial Predicament**

The central government has actually long been predicting the present reform and growth fiscal difficulties. Although it has used many reform measures and methods, issued quite a few relevant notices and decisions, and carried out repeated general inspections of financial affairs, tax revenue, and prices, it has still been unable to solve the problems. What was the real cause of this? A major cause was that fiscal work and reform lack the proper legal safeguards.

Fiscal relations are actually profit distribution relations among the state, collectives, and citizens. Fiscal reform is actually profit adjustment and the result of profit forces. From all viewpoints, it is not generally an economic or administrative action, but rather a legal one. The form, contents, and subject of tax revenue all have a legal basis. Tax revenue relations cannot come into being or die out without legal procedures, and tax revenue per se comes from tax laws. Similarly, the basic budget plan for state financial revenue and expenditure is a real plan for all government activities and must reflect the will of the state, i.e., the will of the whole people. All of its revenue and expenditure must be subordinate to the will of the people, i.e., the will of the state, and can only be realized through legal procedures. Acting according to legal budget procedures is both the beginning of democratic government and also a guarantee for tightening up budget limitations.

**Footnote**

1. Deng Xiaoping, RENMIN RIBAO, 30 May 1987.

**Minister Reports on Final State Accounts for 1988**  
OW0407145889 Beijing XINHUA Domestic Service in Chinese 1216 GMT 3 Jun 89

[Local Broadcast News Service]

[Text] Beijing, 3 Jul (XINHUA)—At the request of the State Council, Wang Bingqian, state councillor and finance minister, today reported on the final state

accounts for 1988 at the Eighth Session of the 7th National People's Congress [NPC] Standing Committee. He said, "In 1988, China's socialist modernization drive continued to proceed, economic reform continued to deepen step by step, economic growth was maintained, all social projects made new headway, and economic retrenchment started. On this basis, the 1988 revenues exceeded the state target, expenditure patterns were restructured, and the financial needs of reform, construction, and enterprise development were basically ensured, thanks to the joint efforts of all people's governments and relevant departments."

Wang Bingqian continued, "According to the officially compiled final state accounts of 1988, the state had a deficit of 7,855 million yuan in 1988. That was based on total revenues of 262,802 million yuan, and total expenditures of 270,657 million yuan. Compared with the anticipated targets we presented to the Second Session of the 7th NPC, total revenues in 1988 increased by 4.02 billion yuan, total expenditures increased by 3,826 million yuan, and the deficits decreased by 194 million yuan."

Wang Bingqian said: "Of the total receipts in 1988, domestic revenue was 248,941 million yuan, or 102.6 percent of the anticipated target, and the amount of foreign loans was 13,861 million yuan, or 108.3 percent of the target."

**FOREIGN TRADE, INVESTMENT**

**Development of Multinational Corporations**  
40060665 Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 5, 30 May pp 16-18

[Article by Tian Fenglun 3944 0023 0243, Institute of Economic Development, Chongqing Academy of Social Sciences: "Thoughts About Problems in China's Development of Multinational Corporations"]

[Text] Today's world is an open world. The internationalization of production and of the flow of commodities has swept every country along on a great tide of international economic relations. Multinational corporations, an important device in modern international competition, developed rapidly following the war, and are a sign of the times in the internationalization of production and commodity circulation.

**I**

Following the war, the development of multinational corporations entered a new flourishing era. In the course of their development, two major unprecedented phenomena occurred, arousing concern.

First, the multinational corporations in developing countries and regions that began to rise suddenly at the end of the 1950's put an end to the historical one-way



flow of capital from developed countries to developing countries. The formation of an international circle of multiple alignments, multiple levels, and multiple directions of flow of direct external investment opened up a new chapter in the international transfer of capital. With the advent of the 1970's, the development of multinational corporations in developing countries and regions became an even more recurring tide, with huge multinational groups coming into being. American FORTUNE magazine survey statistics show that in 1983, three of the 100 industrial corporations in the capitalist world having the largest sales volume were South Korean. In 1984, the number increased to four, making South Korea the champion among developing countries and regions. Today, multinational corporations in developing countries and regions have become a force that cannot be ignored in the world economy. According to the data bank on multinational corporations in developing countries at the Harvard Business School, and statistics from the United Nations Multinational Corporation Center, 963 multinational corporations have been established in 41 developing countries or regions, and 1,964 foreign branches are scattered in 125 different countries and regions, their direct investment amounting to \$10 billion.

Second, socialist countries also hurried to get into the international investment market. As early as the late 1950's, the Soviet Union and eastern European countries began direct investment abroad. According to incomplete statistics, as of the early 1960's, the Soviet Union and eastern European countries were involved in 40 joint ventures abroad, and by the end of 1977, they had established at least 312 subsidiaries in 16 western countries for an investment totaling more than \$600 million. During the past several years, the Soviet Union and eastern Europe have accelerated the pace of direct investment abroad, and the number of multinational corporations is increasing dramatically. As of now, the Soviet Union and eastern European countries have established more than 700 overseas enterprises, the Soviet Union alone having founded at least 92 such enterprises in developed countries and 25 in developing countries.<sup>1</sup>

The rapid expansion of multinational corporations following the war resulted not primarily from changes in the international economic and political structure, particularly in the material prerequisites for their development occasioned by the ever-changing new technological revolution, but from countries' efforts to counter existing threats to their export markets. Because capitalist countries universally pursued policies against other countries' exports after the war, employing both tariff barriers and other means, quite a few countries resorted to "relocating production," meaning that they invested in and built factories abroad, selling products locally. As the World Bank's *Development Report* pointed out, "A common motivation for a company to invest abroad is to counter an existing threat to its export markets. This threat may come either from certain actions taken by

competitors, or from measures taken by local producers to restrict markets. The only way to avoid tariff barriers is to get inside."<sup>2</sup> Clearly it is because of the common perception of the requirements of international economic competition that every country of the world is hurrying to use this advantageous method of multinational corporations to "get inside" to compete actively in international competition.

For a long time, theoreticians have maintained that multinational corporations are an important tool of "modern imperialist nations for the export of capital and for external economic expansion."<sup>3</sup> They emphasize their innate relationship to capitalist economies. However, the postwar multinational corporation competition among countries having widely different social systems cannot but help make people think.

Actually, multinational corporations are products of the internationalization of commodity production. They are simply an early maturing form of enterprise which was first established in capitalist imperialist countries. It was because they were used as important tools for the export of "excess capital," and for foreign economic expansion, that they came to be deeply branded as being monopoly capitalist. This is to say that since multinational corporations are products of the internationalization of commodity production, they most certainly are not solely a creature of monopoly capitalism. Different countries having socialist systems are bound to use competitive and effective multinational corporations whenever commodity production goes beyond their national borders.

Although multinational corporations are an important tool and an effective means for taking part in international competition, and are suited to different social systems, there are nevertheless qualitative differences in multinational corporations in countries having different social systems. This is mandated by the innate characteristics of the social systems. Multinational corporations in capitalist imperialist countries pursue global interests, the strategic goal of which is the maximization of profits. Their service to the need of bourgeois countries to expand externally is manifested in the exploitation and looting of every country in the world, particularly developing countries. By contrast, though multinational corporations in socialist countries and developing countries also have as their operational goal the seeking of profits from investment greater than can be obtained internally, more important is their use as an effective means of developing international economic and technical cooperation, both parties deriving common economic benefits. This is entirely different from the goals that capitalist imperialist multinational corporations pursue.

## II

Traditional multinational corporation theory holds that multinational corporations are unable to develop except in developed capitalist countries. It maintains that

developing countries lack the capital, the technology, and the administrative and managerial talent to develop multinational companies. Nevertheless, it was not very long before the rise of countless multinational corporations in developing countries and regions turned into a raging torrent. Reality posed a challenge to traditional theories. During the 1960's and 1970's, western economists made a wide-ranging study of this matter, which greatly enriched multinational corporation theory, the "three advantages doctrine," and the "dual product market theory" being two theories that provide a representative flavor.

The "three advantages doctrine" capsulizes the factors that decide direct investment abroad as "three advantages," namely ownership rights, inherent advantages, and location advantages. British economist (John Dunning) maintains that the coalescence of these three advantages, particularly the existence of substantial advantages of ownership rights by developing countries, is the primary reason for direct investment abroad by developing countries, and their development of multinational corporations.

Proponents of "dual product market theory" believe that "dual product markets" existed in developing countries following the war, i.e., these countries not only needed advanced technology and the products of advanced technology, but even more needed relatively old "tried and true" technology and its products. Developing countries were frequently unable to satisfy or ensure developing countries' needs for the latter. This was because in the course of technological progress, businesses in developed countries rushed to get high, precision, and leading-edge technology. This meant that their inability to "go in reverse" effectively controlled the relatively old technology that seemed outdated in developed countries but that was still very much in use in developing countries. Thus, the existence in developing countries of a "dual product market" objectively provided the market conditions for the development of developing countries' multinational corporations.

It is noteworthy that both the "three advantages doctrine" and the "dual product market theory" reveal the possibility of developing countries developing multinational corporations, and the difficulty of their avoiding an inclination in this direction. Even so, the rational component of multinational corporation theory in western economic doctrine holds useful lessons for developing socialist countries.

### III

Because of the escalation of trade protectionism in the capitalist world during recent years, China's export markets have shrunk and commodity exports challenged by developed capitalist countries, particularly newly industrialized Asian countries and regions. Under such circumstances in the world economy and trade, developing countries' multinational corporations can both spur

commodity exports and expand international markets, accumulating capital for domestic economic construction. At the same time, they can help the country keep abreast of international economic and trade information, and obtain advanced technology and administration and management knowledge needed to promote accelerated increase in the overall level of China's national economics and technology. In short, development of China's multinational corporations can achieve both long-range results and short-term benefits.

Among China's theoreticians, much controversy exists about the development of multinational corporations, and only with difficulty are multinational corporations able to develop. The main reason stems from the distorted understanding of multinational corporations that has existed for a long time, whereby multinational corporations are regarded one-sidedly as being synonymous with capitalist imperialism. As a result, no one dares take the first step across this Rubicon. Furthermore, China has been slow to react to the changed world economy, frequently adopting a "purist" view or abstract dogmatism as the standard for accepting or rejecting economic and trade policies, unaware of the the "economic price" that such policies entail. In the past, we have neglected the common basic feature of capitalism and socialism, namely that both are socioeconomic systems in which the level of development of the commodity economy is fairly high.

In addition, obstacles to China's development of multinational corporations also stem from the backwardness of its social, economic, and technological conditions: social productivity is low, capital is insufficient, technology is backward, and administrative and managerial personnel are surprisingly lacking. It cannot be denied that the existence of these problems gets in the way of the development of multinational corporations. Nevertheless, the backwardness of these social, economic, and technological conditions does not rule out the possibility and the inevitability of the development of multinational corporations. In fact, in most of the countries in the world that have multinational corporations, problems of a shortage of funds for development of the domestic economy exist to one degree or another. What they export is only "relative surplus capital," and not "absolute surplus capital." Moreover, in today's world, an overwhelming majority of countries (including quite a few developed countries) use external capital insofar as possible, while also exerting efforts to make direct investments abroad. This is a new trend of international capital flow that began to appear during the late 1950's, by which the flow of international capital changed from a one-way absorption type or export type to a two-way "absorption and export type." The experiences of South Korea and India show that the simultaneous development of direct investment abroad and the use of foreign capital can be done in parallel, and are mutually complementary. Capital-short and economically and technologically backward developing countries can likewise develop multinational corporations, thereby obtaining substantial economic returns.

Footnotes

1. C.H. Macmillan, *Direct Soviet and Eastern European Investment in the Western Industrialized Economy*, p 73.
2. World Bank, *World Development Report*, 1985, p 125.
3. Chief Editor Xu Dixin [6079 3321 2450], *Dictionary of Political Economics*, Vol 2, p 60.

**Strategies To Develop Overseas Investment**  
HK1807083789 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 4, 1989, pp 41-44

[Article by Wang Zhenquan 3076 6966 0356, edited by Li Fei 2621 7236: "Energetically Develop China's Investments Overseas"]

[Text] If China wants to develop an export-oriented economy, and to take part in international economic activities, it has to—at the same time as its foreign trade is being expanded—develop its investment overseas to promote exports, to expand its world markets, and to enable itself to adopt the present trend whereby economic activities are being internationalized.

I

At the same time that China is opening up to the outside world, and is vigorously attracting foreign funds, technology, and personnel, it should also work hard to export funds, technology, and personnel.

Superficially speaking, the practice of attracting foreign funds is contradictory to that of investing overseas. In fact, the difference between them is: The practice of investing overseas is to spend part of the country's foreign exchange on overseas investment in order to increase foreign exchange income and to accumulate funds; while the practice of attracting foreign funds is to borrow foreign money for domestic production, so as to accumulate funds and then to repay foreign loans. Since the 1970's, many countries have changed the direction in which their funds are to be used, and have gradually changed a single-direction operation system into a dual-direction operation system, under which there will be an inflow as well as outflow of funds. In the past, more than 95 percent of direct international investments were invested by developed countries, and 75 percent of these investments were absorbed by developed countries; developing countries have always been direct investment importing countries. However, in the 1980's, about 50 developing countries and areas are investing overseas, and the accumulated amount of their direct investment has reached \$40 billion. China not only has to draw in foreign funds, but also has to export funds step by step in a planned way. It should set up enterprises in foreign countries to compete with others in the international economic arena, and to gain the initiative in the competition which becomes more severe every day.

Over recent years, many Chinese enterprises have launched investment projects such as technological development, technology transfer, financial projects, insurance projects, and so on, in the United States, Japan, Thailand, and other countries. On this foundation, they have also set up overseas subsidiaries, which are mainly in the form of joint ventures. Up to the first half of 1988, China had set up 458 sino-foreign joint ventures, sino-foreign contractual joint ventures, and wholly foreign-owned enterprises in 67 countries and areas. The total amount of investment involved was \$1.838 billion, of which \$0.678 billion, amounting to 37 percent of the total investment, was invested by China. China's overseas investment is concentrated mainly on industrial manufacturing industry, natural resource development, and new technological development, and more than 90 percent of the overseas enterprises are earning profits or incurring no losses. Over the past 9 years, China's investment overseas has been increased at an average annual rate of 13 percent, which is higher than that of all developing countries, and is also higher than the growth rate of China's exports. When compared with the situation when the economy was closed to the outside world, this situation is undoubtedly great progress. However, this does not match the present development situation of the multinational companies in the world, China's economic strength, and China's position in international affairs.

Although China has just begun to set up enterprises overseas, a bright future for this practice has already been indicated.

1. China's enterprises have been searching for the most advantageous production and marketing bases, and the most advantageous bases for raw material supply in the world, and have established enterprises overseas. Labor-intensive industries that must consume a large quantity of energy, or industries that have relative strong points have been transferred to countries and areas where the prices of raw material and labor are low. These industries have started production in these areas, and have also launched direct sales. This practice is advantageous to lowering the cost of products, and has obtained comparative benefits, increased foreign exchange income, and enhanced the competitive position of China's enterprises on the world market.

2. In today's world, the scope of a "free market" has been relatively reduced, and the scope of a "closed market" has been relatively expanded. The practices of investing overseas, exporting China's manufactured products, raw materials, funds, technologies, and labor services can help China avoid the trade, tariff, and nontariff barriers that will be put on China's exports of manufactured products by countries and areas in which China has established enterprises, and can help China break the constraints of current protectionism. Moreover, these practices can also promote and expand the export of machinery and equipment, raw materials, and semimanufactured products. In this way, China's original export

market can be protected, the favorable trade and tariff treatments offered by other countries can be used fully, and the commodity market can be expanded.

3. The practice of developing overseas investments can enable China to obtain steady supplies of strategic resources that are in short supply, can alleviate the situation in which China is short of energy and raw materials supplies, and can help to maintain the steady and long-term growth of the national economy.

4. The practice of developing overseas investments can help China to break up economic and technological blockades, to learn and to use advanced scientific and technological results, to understand and grasp the development and trends of the international economy and science and technology. Moreover, this practice can also enable China to learn and draw lessons from foreign countries' advanced management experience in the forward position of international market competition, to train and develop technical and management personnel who are currently and urgently needed by China, have international management and business experience, and are well trained.

## II

The development of China's investments overseas should not be separated from China's situation, the investment projects should not advance too fast, and action should not be taken blindly. Analysis and comparison of investment areas, joint venture partners, investment projects, and so on, should be made in accordance with the requirements of China's economic development strategy, and reasonable policies should thus be formulated to promote the smooth development of China's overseas development.

1. Suitable investment areas should be chosen. In view of the experience of many countries, when choosing areas in which overseas investment projects will be launched, the following factors should be taken into account: Whether the areas can meet the requirements of the target of overseas investment; the reserve volume, quality, and development of the resources of the countries where investment projects will be launched; the intention of cooperation by the government of these countries and the favorable conditions they can offer; the political, legal, and human geographical environment of these countries; the potential and actual competition situation of the market in these countries and their neighboring countries; the suitability of China's products and technology in target markets; and the export channels of these countries. Therefore, in launching investment projects overseas, China should use the favorable condition of being geographically close to the countries where the investment projects will be launched, of being familiar with the market, and the condition that it has common historical, cultural, and nationality origins with the countries where the investment projects will be

launched. It should take Hong Kong as its first stepping-stone and Asia as its base to invest in developing countries and areas. Then, it should develop step by step and invest in developed countries. In this way, the goal of diversification and development by phases can be achieved.

2. Correct industries where investment will be made should be chosen. In choosing industries in which investment will be placed, the following factors should be taken into consideration: China's strong points and its economic and technological conditions; whether the investment can match the short-term priority development plan of the countries where the investment will be placed; whether the industries can enjoy favorable treatment; whether the resources of the countries in which the investment will be placed can be used, and the extent to which China's export will be promoted; whether the goal of a small investment and quick results can be achieved; and the investment environment of the countries where the investment projects will be launched, and the prospects of the investment projects. Therefore, the key industries in which China should invest overseas are: Forestry, fishery, mining, and other resource development industries; the manufacturing industry; exporting of labor services; service industries, such as banking, insurance, consulting, and so on; the food processing, silk, garment, ceramic, and handicraft industries, as well as other industries that have national characteristics; and high-technological industry.

3. A flexible form in which the shares of China's overseas enterprises are to be divided should be chosen. The forms in which the funds involved in overseas investment are to be divided include: Complete holding of the total shares of an enterprise, holding a majority of the shares of an enterprise, holding an equal amount of the shares of an enterprise as that held by the foreign counterpart, and holding a minority amount of the shares of an enterprise. In choosing the form in which the funds involved in overseas investment are to be divided, the funds available to an investor, its technical capability and management capability, the investment environment of the country where the investment project is to be launched, and the targets of investment should be taken into consideration. Generally speaking, for investment projects that will use foreign resources, the strategy of flexible holding of shares should be adopted; for investment projects that will use foreign funds, the form of holding a minority of shares should be adopted; for investment projects aimed at expanding export, the form of holding a majority amount of shares should be adopted in order to control the activities of a joint venture enterprise; and for investment projects aimed at introducing advanced technology and management experience, it is better to adopt the form of holding an equivalent amount or approximately equivalent amount of shares. The forms of overseas investment should be diversified, while the focus should be on the joint-venture enterprises to be established abroad. It is of extreme importance in choosing joint-venture partners.



An ideal partner should have good credit standing and respectability, strong technical management capability, wide selling channels, and a sincere cooperative attitude.

### III

In developing China's overseas investments, positive policy measures should be studied and formulated to encourage domestic enterprises and business units to set up diversified forms of joint ventures overseas.

1. A series of policy measures should be formulated by making reference to foreign experience, and these policy measures should match China's policies and measures governing the establishment of joint venture enterprises in China. The Bank of China should provide long-term and favorable loans to an enterprise for its investment projects overseas, and it should also give these investment projects spot exchange support and the favorable treatment of foreign exchange retention. The People's Insurance Company of China should prepare special insurance policies and should bear the risks of war, political changes, and insurrection that overseas investment projects may involve, and the risk that overseas investment projects will face in the apportionment of funds when a contract is terminated. The machinery and equipment contributed by a Chinese enterprise as part of the amount of the shares of the overseas enterprise held by it should enjoy equivalent treatment as that enjoyed by China's export commodities. For the products that will be sold in China by sino-foreign contractual joint ventures, if they are the materials and goods that will be imported by China in large volume, they should be under the state's import plan, should be purchased by specialized companies, and should enjoy equal treatments as that enjoyed by the same category of import products. When joint venture enterprises purchase equipment and raw materials in China, priority treatment should also be provided to them. The government should work positively in concluding agreements on avoiding double taxation with the countries in which China's overseas investment projects are launched, and should exempt and lower the tax that will be levied on income such as bonuses that will be remitted by overseas enterprises to China. In short, complete and full independent management decisionmaking power should be granted to internalized enterprises, and conditions that will enable China's overseas investment enterprises to compete equally with the multinational companies of other countries should be created to promote the development of China's overseas investments.

2. Study of international investments should be enhanced and high-grade personnel who will undertake international economic activities should be trained. The trend of the flow of international funds, the geographical distribution and structure of international funds, the market demand, and the foreign funds policy of other countries should be studied in order to formulate correct overseas investment strategies. In order to achieve these requirements, China should set up information advisory

systems in China and abroad to raise its capability to correctly assess and choose investment projects. At the same time, a number of well-chosen personnel with an intimate knowledge of various aspects and active in the international market should be trained.

3. Enterprise groups should be encouraged to take the lead in entering the international market. At present, the production and management system of China's enterprise groups should be rapidly perfected and their strong point of economies of scale should be fully developed. Various measures should be adopted to encourage enterprise groups to develop businesses outside China, to invest in establishing factories overseas, and to establish multinational companies. Currently, the China International Trust and Investment Corporation, specialized foreign trade companies, and other large enterprise groups have already had the economic strength to establish business overseas. They can take the lead in internationalization, and can achieve the transformation from a path emphasizing the domestic market into one emphasizing foreign markets.

4. A macroscopic coordinating organization should be established to coordinate and plan China's overseas investments. In order to effectively control and manage the development of overseas investments, an organization formed by the planning, financial, foreign trade, and price departments should be established to coordinate and plan the medium- and long-term plans, policies, and measures of China's overseas investments, to unifiedly lead and coordinate on a macroscopic level the foreign trade activities of all industries and sectors in China, and to assess, approve, and supervise investment projects that will involve huge amounts of investment. It must unify China's foreign trade activities, and should avoid overlapping competition, and the practice of seeking quick success and instant benefit.

5. The development of overseas investments should be divided into stages in accordance with practical situations. In the initial stage, enterprises that have basic, mature conditions should be allowed to take over bankrupt foreign enterprises, and this practice should be the main form in which overseas investment is to be developed at this stage. In the growth stage, the key to investment should be to expand the manufacturing industry and to adopt the strategy of having diversified products. At the stage when overseas investment is developing prosperously, a global strategic target and an overall plan should be formulated, the strategy of turning products into international specialized products and the strategy of expanding the life period of products should be promoted, and strong points in international market competition should be obtained.

#### Imports of Some Building Materials To Be Curtailed

OW2906143089 Beijing XINHUA in English  
1359 GMT 28 Jun 89

[Text] Beijing, June 28 (XINHUA)—The State Bureau of Building Materials Industry has called for limiting



imports of some building materials so as to save hard currency and promote development of relevant domestic production.

Included in the proposed list are cement, plastic wall paper, plastic floor tiles, chemical-fiber carpets, marble and granite products, porcelain sanitary utensils and bricks, plate glass and re-enforced glass.

#### **Recent Turmoil Affects Anhui's Exports**

*OW2406003089 Hefei Anhui Provincial Service in Mandarin 1100 GMT 22 Jun 89*

[From the "Provincial Hookup" program]

[Text] The focus of discussions at a recent provincial foreign trade analysis meeting held in Hefei was to analyze foreign trade for the whole province and study how to make up for the loss caused by the turmoil and how to fulfill and then overfulfill this year's export plan and foreign exchange income quota set by the state.

It was pointed out at the meeting that during the recent period of turmoil and rebellion, the broad masses of staff members and workers on the foreign economic relations and trade front of our province upheld a firm and clear-cut stance and withstood tests. They persisted in doing their work and carrying out various foreign trade activities even under extremely difficult conditions. They contributed to putting down the rebellion and stabilizing the situation with these concrete actions.

The meeting pointed out that, early this year, our province's foreign economic relations and trade were in a pretty good situation. Despite the acute shortage of funds, inadequate supply of staple goods, rising domestic prices, and keen competition in international markets, the foreign trade departments at all levels in our province did their best to acquire supplies of goods and made every effort to expand exports, with fairly good results. During the period from January to April, the province's export volume did not drop, but increased by 3.6 percent compared with last year's corresponding period. However, the subsequent turmoil and counterrevolutionary rebellion had a considerable adverse effect on the foreign trade of our province. This was epitomized in the fact that the export volume of our province declined in late May by a margin of 2.4 percent compared with the corresponding period of last year, and adverse effects are expected to last for several months thereafter.

Confronted with this grim situation, the meeting decided, after serious discussions, that unremitting efforts should be made to fulfill this year's export plan to earn foreign exchange as set by the state, that is, to guarantee the fulfillment of the state's mandatory quota of \$520 million and try to break through the \$550 million mark. The meeting made a serious analysis of the current situation of various import and export companies and set targets for them to meet to this end. Then, the meeting urged the foreign trade departments at all

levels to launch an extensive double-increase and double-economy campaign [campaign to increase production and practice economy and to increase revenues and retrench expenditures], centering on conducting check-ups of warehouses, making better use of stored goods, and collecting overdue payments, so as to achieve greater economic results by improving management. At the same time, they were requested to seize every opportunity to do more foreign business. In addition, the meeting called for efforts to earnestly implement the various export-encouraging policies established by the state, guarantee the quality of exported goods, raise the percentage of fulfilled contracts, and do everything possible to arouse the enthusiasm of production enterprises and foreign trade enterprises about expansion of export so as to ensure the fulfillment of this year's export quota.

#### **Hong Kong Businessman To Invest in Shaanxi**

*OW1506114989 Beijing XINHUA in English 0818 GMT 15 Jun 89*

[Text] Xian, June 15 (XINHUA)—In a letter to the governor of Shaanxi Province, a businessman from Hong Kong said that he is going to add 9.95 million U.S. dollars to his investment in the northwest China Province.

He Zhaozhong, manager of an investment company in Hong Kong, has already invested 300,000 HK dollars and 1.14 million U.S. dollars in the construction of the Zhong-Fu Hotel in Xian, capital city of Shaanxi.

He said: "The present situation in China has brought about much overseas news coverage. As a patriotic Chinese, I have witnessed some of the activities going on in Xian by staying on in the People's Palace here."

In his opinion, "The open policy promoted by Deng Xiaoping will not change and rioters are opposed by all patriotic people in the world."

He said, "I feel all the more confident and will contribute to the construction of the four modernizations as the calming down of social unrest will ensure the environment for foreign investment."

Upon receiving the letter, Governor Hou Zongbin expressed his appreciation at a meeting today and said that Shaanxi welcomes overseas investment as much as always. The province remains unswerving in carrying out the open policy and other preferential policies concerning overseas investment.

He also said that his province has made friends with a large number of overseas businessmen who have come to run businesses in Shaanxi in the past few years, some of whom remained despite the social unrest in April. He said that those who have gone home are now calling or cabling to say that they are coming back.

## ECONOMIC ZONES

### **Xiamen Boosts Telecommunications Capabilities**

*OW2906125489 Beijing XINHUA in English  
0102 GMT 28 Jun 89*

[Text] Xiamen, June 28 (XINHUA)—A businessman from Taiwan very excitedly said, "It's very convenient" after putting through three calls to Taiwan in five minutes.

His experience is shared by all who come to invest in the city. In fact, with 23,000 program-controlled telephone lines open to 168 countries and 280 Chinese cities, Xiamen has become the most advanced city in telecommunications in China.

The city, with a population of 400,000, has been trying to develop its posts and telecommunications since 1958. In the past few years the city has spent over 60 million yuan to introduce advanced telecommunications facilities from abroad.

To better meet the needs of the Xiamen special economic zone, the city is now further expanding the capacity of the city telephone network. By the end of the year the number of program-controlled telephone lines will be increased to 33,000.

## POPULATION

### **Sichuan Magistrate Reveals Progress in Family Planning**

*OW3006112089 Beijing XINHUA in English  
0810 GMT 30 Jun 89*

[Text] Beijing, June 30 (XINHUA)—To Wang Zongbang, magistrate of Wangchang, one of the poorest counties in Sichuan Province, 1988 was the most satisfying year of his career.

Thanks to implementing the one-child policy by linking it with economic aid, the natural population birth rate of the county in the Daba Mountains dropped to 13.92 per thousand last year, and 87.61 percent of the couples of reproduction age decided not to have a second child.

According to the magistrate, his county generated an output value of 200 million yuan (about 54 million U.S. dollars) last year and all the poor farmers climbed above the poverty line.

In China, a person whose annual income is less than 200 yuan and has less than 200 kg of grain a year is regarded as living below the poverty line.

The county's gross industrial and agricultural output value in 1985 equalled 40 percent of the country's average and the number of people below the poverty line was 180,000, accounting for 55.2 percent of the total.

According to Chinese population scientists, the traditional idea of "the more sons, the wealthier the family" and the low level of productivity have led farmers to strive to increase the number of family members.

Wang explained that some local officials use only administrative means to force farmers to implement the one-child policy without paying attention to solving their problems, and so, farmers inevitably boycott the policy.

According to Wang, his county has paid close attention to helping farmers solve their personal problems while promoting family planning.

The county sends medical workers and agrotechnicians to rural areas to offer training courses on sex education, child care, scientific farming and care for the aged. They also patiently explain the relationship between the booming population and limited resources, while providing social services to one-child families and helping them to take out one-child and pension policies.

China has more than 2,000 counties, and a central government official in charge of family planning said many local officials are following the example of Wang Zongbang and linking the implementation of the one-child policy with economic aid.

China's annual population increase is 15 million.

The official said, "If all county officials adopted feasible and practical measures, as Wang has, the annual population growth would be cut by half within a year and the country's total population would be limited to 1.3 billion by the end of this century."

## TRANSPORTATION

### **Transportation, Communications Statistics for May**

*HK2606093789 Beijing CEI Database in English  
26 Jun 89*

[Text] Beijing (CEI)—Following is a list showing the statistics of transportation, post and telecommunication service in May 1989, released by the state statistical bureau.

**Transportation, Post, and Telecommunication Service for May 1989**

	Unit	Jan-May 1989	May 89	Increase
Total of cargo	100 million tons	10.85	2.29	-0.1
Railways	100 million tons	6.00	1.27	2.0
Auto	100 million tons	2.57	0.53	-10.8
Ships	100 million tons	2.28	0.49	0.3
CAAC	10 thousand tons	12.86	2.95	5.7
Total of circulating cargo (100 million tons/km)		8565.70	1721.52	5.9
Railways		4179.89	883.02	1.5
Auto		167.13	35.19	-0.3
Ships		4215.77	802.67	9.3
CAAC		2.91	0.64	5.8
Total of passengers	100 million persons	24.45	4.86	4.9
Railways	100 million persons	5.17	1.02	5.0
Auto	100 million persons	18.25	3.64	-5.6
Ships	100 million persons	0.98	0.19	-0.1
CAAC	10 thousand persons	536.50	133.72	-0.1
Total of circulating passengers	(100 million persons/km)	2397.06	469.71	5.4
Railways		1417.70	268.83	7.4
Auto		820.05	166.71	8.5
Ships		76.95	14.07	1.1
CAAC		82.36	20.10	2.9
Handling of main coastal ports	100 million tons	1.89	0.40	8.6
Total circulating volume of civil aviation	100 million tons/km	8.94	2.12	3.8
Total volume of post, telecommunication	100 million yuan	24.8	5.2	34.8

**AGRICULTURE**

**Results of 1987 Rural Reform Survey**

40060588 Beijing *NONGYE JINGJI WENTI*  
[PROBLEMS OF AGRICULTURAL ECONOMY] in  
Chinese No 4, 23 Apr 89 pp 40-45

[Article by Rural Survey Office, CPC Central Rural Policy Research Office and Rural Development Research Center of the State Council: "Report Analyzing Particular Data from 1987 National Rural Survey"—First part of article published in JPRS-CAR-89-065, 26 June 1989, pp 47-55]

[Text]

**VI. Development and Change of Associations**

Based on a follow-up survey of more than 500 economic associations, a growth trend has gradually emerged in the past year in which economic associations formed by peasants on the basis of voluntary participation and mutual benefit act as market mechanisms. The main development characteristics of the associations are that they are fewer in number, and of larger scale, greater income, and greater economic power. They face problems regarding quantum leaps in operating expenses, lower net profits, and the continued lack of a flexible external environment.

According to statistics, in 1987 in the villages surveyed there was a total of 510 various economic associations. On average, there were 1.83 associations per village, 0.12 fewer than in 1986. Although there were fewer associations, there was an increase in the number of participating units. On average, in 1986, 5.7 units joined associations, versus 6.0 units in 1987, a 5.26-percent increase. Among the various kinds of economic associations, cooperation among agricultural households still occupies the leading spot. Cooperation among agricultural households and state-run units accounted for 2 percent, while other forms of associations accounted for 98 percent.

Compared to 1986, the number of personnel employed by associations increased. In particular, the number of hired workers grew relatively quickly. In 1986 there was an average of 11.73 employees per association. In 1987 the number grew to 13.6 employees, up 15.9 percent. The average number of hired workers per association rose from 5.15 people to 7.1, up 37 percent, among which hired workers employed longer than 6 months rose from 3.17 people to 4.9, up 54.6 percent. At present, associations' hiring of workers, who account for 52.2 percent of the total number of employees, has become an important means of taking in surplus labor.

Associations had stronger economic power. In 1987 the average amount of fixed assets of a productive nature per association was 5,500 yuan at original value, up 29.7 percent from 1986. Yearend capital totaled 58,000 yuan,

up 25.1 percent from 1986. Of this amount, the percentage of borrowed funds fell, while the percentage of disposable funds rose. In 1987 borrowed funds accounted for 34.7 percent of total funds, down 2.1 percentage points from 1986, while disposable funds accounted for 65.3 percent of total funds, up 2.1 percent from 1986.

The increase in associations' operating income was comparatively large. In 1987, the average operating income per association was 118,700 yuan, up 4.81 percent from 1986. Net operating profit was 18,800 yuan, up 48.5 percent over 1986. In 1987, 5,630 yuan of net profits per association was used to expand reproduction funds, 1,279 yuan more than in 1986, up 29 percent.

The survey showed that combined funds continued to grow in the various types of associations, but combined labor, technology, and means of production are progressively falling. Combined capital accounted for 74.3 percent of all associations, up 5.32 percentage points from 1986. Combined labor accounted for 18.4 percent, down 1.57 percentage points from 1986.

Considering combined capital, cash shares increased the most. In 1986, the per association average of cash shares was 14.7. In 1987, the figure rose to 15.4 shares, up 0.7 shares. Total cash from share purchases was 22,900 yuan, up 21.54 percent.

Associations continued to be mainly in secondary industry. Those in this sector accounted for 59 percent, up 2.83 percent from 1986. Associations engaged in primary industry fell from second to third place, while those engaged in the tertiary sector moved up to second place.

There also were changes in types of associations within the three major industries themselves. In the primary sector, the percentage of associations engaged in crop cultivation and animal husbandry fell. Those engaged in the forestry and fishery industries rose. Compared to 1986, the proportion of associations engaged in crop cultivation fell from 4.07 percent to 3.14 percent. The proportion of associations engaged in animal husbandry fell from 1.11 percent to 0.98 percent; those in the fishery industry rose from 13.3 percent to 13.5 percent; and those in forestry rose from 0.37 percent to 0.39 percent. Regarding the secondary industry sector, the percentage of associations engaged in industry rose and those in construction fell. Industrial associations rose from 51.9 percent in 1986 to 56.3 percent, up 4.4 percentage points. Construction associations fell from 4.25 percent in 1986 to 2.75 percent, down 1.5 percentage points. With reference to the tertiary sector, the number of associations engaged in transport rose, while the number in the commercial beverage service industry fell. Transport associations rose from 4.3 percent in 1986 to 10.8 percent, up 6.5 percentage points. Commercial beverage service industry associations fell from 10.5 percent in 1986 to 8.8 percent, down 1.7 percentage points.

Survey data showed that associations' operating expenses abruptly jumped, net profits fell, and expansion of reproduction capacity weakened. In 1986 average operating expenses per association were 61,700 yuan. In 1987 they rose to 93,800 yuan, up 32,100 yuan, an increase of 52.1 percent. Gross profits rose from 18,500 yuan to 24,900 yuan, up 34.8 percent. The pace of increase in gross expenses was 17.3 percent percentage points higher than the pace of increase in gross profits. In line with this, net profit generated per 100 yuan of expenses fell from 20.5 yuan in 1986 to 20 yuan in 1987. Average taxes remitted to the state fell from 26.8 percent in 1986 to 21.1 percent in 1987, down 5.7 percentage points. The survey also showed that in all respects, associations' operating apportionment rose. The average apportionment per association rose from 34 yuan in 1986 to 60 yuan, up 76.5 percent in a year's time. Compared to 1986, in 1987 the proportion of funds which associations used to expand reproduction fell from 34.4 percent of gross profit to 30 percent, down 4.4 percentage points. The growth rate of associations' operating expenses was greater than that of profits. This is closely related to poor self-management, as well as the hyperinflation of prices on the means of production. As associations hired additional personnel, in a year the number of illiterates and semiliterates hired rose 20.96 percent. Survey data also showed that there was a clear drop in the pace of development of associations established longer than 5 years. Among associations that were set up relatively early, the value of fixed assets of a productive nature had fallen 39.75 percent at yearend. Moreover, at yearend the proportion of production funds among total funds fell 42.36 percent, disposable funds fell 49.5 percent, gross income fell 43.84 percent, gross profits were down 50.59 percent, and funds used to expand reproduction fell 69.1 percent. It is worth earnestly studying why practically all economic indicators revealed falling tendencies.

#### VII. Certain New Conditions Regarding Managing Hired Labor

**A. Fewer Hired Labor Households, Lower Percentage.** In 1987, 1,277 of 26,810 sample households had hired labor, down 14 percent from 1986. The proportion of hired labor households fell from 5.6 percent in 1986 to 4.8 percent, down 0.8 percentage points. Of this figure, 1,094 households hired temporary labor, 14.6 percent less than in 1986, accounting for 4.1 percent of the sample households, down 0.7 percentage points from 4.8 percent in 1986. Some 183 households hired long-term labor, 8.1 percent less than in 1986. They accounted for 6.8 percent of the sample households, down from 7.4 percent, down 0.06 percent.

**B. Increase in Number of Temporary Workers, Clear Decrease in Number of Long-Term Workers.** Regarding temporary hired labor households, there were 5.6 workers per household, 0.9 persons more than in 1986, up 19 percent. Of which, 61.7 percent of households had from one to three workers, down 0.8 percentage points from

1986; 22.8 percent of households had from four to seven workers, up 3.3 percent from 1986; and 15.4 percent of households had more than eight workers, down 2.5 percent from 1986.

Regarding long-term hired labor, the household average was 5.9 workers, down 8.9 persons from 1986. The rate of decrease was 60 percent. Of which, households with one to three workers accounted for 58.2 percent. The number of households rose 1.4 percentage points from 1986. Households with four to seven workers accounted for 25.3 percent; the number was down 9.6 percentage points from 1986. Households with eight or more workers accounted for 16.5 percent; the number of households was down 10.9 percentage points from 1986.

**C. Operation Scale of Hired labor Households Grew.** At the end of 1987, the original value of fixed production assets per hired labor household was 3,120 yuan, up 28 percent over 1986. Of this figure, temporary labor households' assets were 2,423 yuan, up 17 percent, and long-term labor households' assets were 9,320 yuan, up 62 percent.

In 1987, the aforementioned hired labor households' average annual operating income was 11,500 yuan, up 61 percent over 1986. Of this figure, temporary labor household income was 9,093 yuan, up 56 percent, and long-term labor household income was 36,500 yuan, up 84 percent.

Regarding the annual net income of a productive nature of the aforementioned hired labor households, the household average was 5,088 yuan, up 45 percent over 1986. The figure for temporary labor households was 4,651 yuan, up 43 percent, and 10,700 yuan for long-term labor households, up 69 percent.

**D. Clear Rise in Taxes Submitted to State, Reduction in Funds Withheld by Collectives.** Hired labor households submitted an average of 489 yuan of taxable income to the state (7.6 times higher than the amount of tax submitted by non-hired labor households), up 65 percent over 1986, and higher than the increase rates for operating income and net production income. Of this amount, temporary hired labor households submitted an average of 316 yuan in taxes, up 46 percent, while long-term labor households submitted an average of 2,007 yuan, up 100 percent.

Average hired labor households withheld 223 yuan from the amount submitted to village organizations (1.7 times more than the amount withheld by non-hired labor households), down 13 percent from 1986. Of this figure, temporary hired labor households withheld 202 yuan, down 15 percent, while long-term hired labor households withheld 624 yuan, up 6 percent.

**E. Economic Efficiency Down.** In 1987, hired labor households received 0.73 yuan net income per yuan of expense (net income equals gross operating income

minus gross operating expenses minus taxes minus withholding), down 0.06 yuan from the 0.79 yuan of 1986. Of this figure, temporary hired labor households earned 0.91 yuan net income per yuan of expense, 0.05 yuan less, down 5 percent, while long-term hired labor households earned 0.43 yuan net income per yuan of expense, 0.01 yuan less, down 2 percent.

**F. Higher Wages for Hired Labor.** In 1987, the daily wage for hired labor was 4.82 yuan, 0.75 yuan more than in 1986, up 18 percent. Of this figure, the temporary labor daily wage was 4.77 yuan, 0.79 yuan more than in 1986, up 20 percent, while the long-term labor daily wage was 4.85 yuan, 0.7 yuan more than in 1986, up 17 percent.

## VIII. Situation and Issues Regarding Arable Land Administration

**A. No Clear Change in Ways of Managing Arable Land, Slight Increase in Household Contract Responsibility Operation.** In 1987, there was an average of 2,374.4 mu of arable land per village surveyed. Among the total arable land, that managed by contracted agricultural households accounted for 95 percent; that by partnerships, combined households, or individuals, for 3.7 percent; that by village organization collectives, for 0.8 percent; that by various kinds of economic associations, for 0.3 percent; that by collectives from other villages or individual contractors, for 0.26 percent; and that by other units, for 0.04 percent. Compared to 1986, the percentage of arable land among the total area of arable land managed by agricultural household contracts and associations rose by 1.25 and 0.14 percentage points, respectively. There was a drop in the average percentage of arable land managed in other ways.

**B. Arable Land Concentration Slow, Household Management Scale Up Slightly.** On the average, in 1987 9.2 mu of arable land was managed per sample household, the same level as in 1986. The arable land per laborer was 3.54 mu, and the per capita arable land was 1.92 mu, a reduction from 1986. The averaged arable plot managed per household was 8.3 plots (8.99 plots in 1986). There was a slight reduction in the number of plots. The average plot of arable land was 1.11 mu (1.02 mu in 1986). There was a slight increase in area per plot. This data indicates that there was an improvement in the dispersal of plots.

Compared to 1986, in 1987 agricultural households managing plots of arable land of less than 20 mu fell from 87.8 percent of the total number of households to 80 percent; the number of households managing 20 to 50 mu of arable land rose from 8.2 percent to 8.8 percent; and the number of households managing more than 100 mu of arable land rose from 1.4 percent to 1.5 percent. Of the aforementioned agricultural households managing more than 20 mu of arable land, the household average was 37 mu, up one mu from 1986. Of those managing less than 20 mu, the figure remained constant.



**C. Faster Rate of Arable Land Loss, Slower Progress in Subcontracting Land.** Based on averaged calculations, in 1987 each village surveyed lost 53.7 mu of arable land, a 2.19-percentage point loss over 1986. From 1984 to 1986, each village surveyed lost an average of 32.8 mu of arable land, a 1.27-percentage point loss. The aforementioned data shows that there is a faster rate of arable land loss, at 0.82 percentage points in 1 year.

In 1987, the sample household average of subcontracting land for arable use was 0.3 mu, accounting for 3.3 percent of the average household arable land area, basically stable with the 1986 figure. However, more households did so. In 1987, 8.2 percent of the total number of sample households subcontracted land, up 0.5 percentage points from 1986.

**D. Different Scales of Operation, Showing a Clear Difference Between Land and Labor Productivity.** The survey of sample households showed that land productivity is relatively higher for agricultural households that have a relatively small scale land area of operations, but operating expenses per mu are high when the average area of mu put into production is great. Comparing sample households working on arable land of less than 10 mu with those of 25-50 mu, the former have 1.49 times the per mu grain yield of the latter, and the former's average net income per mu is 2.23 times the latter's. Comparing the area of land put into operation under differing scales of operation by households, the former is 4.25 times that of the latter. Comparing operating expenses per mu, the former is 2.18 times the latter.

The survey data showed that when the operating scale of the land is relatively great, then labor productivity is relatively high. From the agricultural households' daily income changes according to the following different scales of operation, it can be seen that: households working less than 10 mu have a daily income of 5.7 yuan; 10-15 mu, 6.7 yuan; 15-20 mu, 8.1 yuan; 20-25 mu, 8.6 yuan; 25-30 mu, 9 yuan; 30-50 mu, 10.4 yuan; and more than 50 mu, 15.0 yuan.

#### **IX. Savings and Consumption Proportions Readjusted**

As the data from following 26,810 sample households show, in the past year, agricultural households' investment consciousness has been raised, they have put into operation more projects of a productive nature, there has been restraint on excessive lead-time expenses, and the relationship between savings and consumption has improved.

**A. Agricultural Households' Surplus Funds Increase.** In 1987 the average gross income per sample household was 4,563.6 yuan. Deducting total spending for the year of 4,057.1 yuan, the annual surplus was 506.5 yuan, or 124.1 yuan per capita, a 2.3-fold increase over 1986. Even though there is greater production and improved standards of living, there is still a shortage of per capita

hundred yuan surplus funds. However, after all growth and expansion are under way, spurring them on, which will be advantageous to accumulating rural funds and rejuvenating the economy.

**B. Daily Life Consumer Spending Growth Rate Slower Than Income Increase Rate, Yearend Cash on Balance Funds Up.** In 1987, the gross annual incomes of sample households rose 22.9 percent, while gross spending rose 17.6 percent. Per capita net income rose 21.2 percent, while per capita daily life consumer spending rose 12.3 percent. At the same time, yearend sample household savings were up greatly. At yearend 1987, average savings per household were 616.6 yuan, up 37.3 percent over 1986. Cash on hand was 896.3 yuan, up 43.6 percent over 1986. Income growth was faster than consumption growth, and cash surplus was up greatly. This provided advantageous conditions for the growth of agricultural production.

**C. Peasant Input Awareness Up, Proportion of Daily Life Consumer Spending Among Gross Spending Down.** In 1987, sample household operating expenses and spending to purchase fixed assets of a productive nature were calculated at an average 1,411.2 yuan, up 27.4 percent over 1986. They accounted for 34.8 percent of gross annual household spending, up 2.7 percentage points over 1986. Of this figure, spending per household for fixed assets of a productive nature was 153.2 yuan, up 63.7 percent over 1986, up 1.1 percentage points in terms of the proportion of gross annual household spending, reaching 3.8 percent. During the same period, daily life consumer spending per household was 227.3 yuan, up 12.3 percent over 1986, accounting for 49.8 percent of gross annual household spending, down 4.7 percentage points from 1986. Considering agricultural household living consumer spending and spending for fixed assets of a productive nature, the proportion between the two went from 21:1 in 1986 to 14:1 in 1987.

**D. Change in Household Operating Expense Structure, Primary Industry Operating Expenses Proportion Down.** In 1987, the operating expenses of sample households rose 24 percent over 1986. Primary sector operating expenses accounted for 64.8 percent, down 6.1 percentage points from 1986. Secondary sector operating expenses accounted for 20.1 percent, up 7.4 percentage points over 1986. Tertiary sector operating expenses accounted for 15.1 percent, down 1.3 percentage points from 1986. Due to the increase in the secondary sector, the secondary and tertiary sectors together accounted for 35.2 percent, up 6.1 percentage points over 1986.

**E. Higher Standard of Living for Agricultural Households, but Little Consumption Mix Change.** In 1987, among sample household consumer spending, consumer goods accounted for 94.8 percent, down 0.2 percentage points from 1986. Spending on culture and services accounted for 5.2 percent. Although up 0.2 percentage points from the previous year, the proportion is still too small.

Regarding consumer spending for daily life, considered in terms of descending order of spending, the sequence was food, lodging, necessities, clothing, and fuel. Compared to 1986, items showing slight changes were lodging, clothing, and fuel, the proportions of which among daily life consumption were down, at 19.3 percent, 8.6 percent, and 5 percent, respectively, down from 19.8 percent, 9.2 percent, and 5.4 percent, respectively; food and necessities rose slightly, to 54.9 percent and 10.9 percent, respectively, from 54.8 percent and 9.5 percent. Among daily life consumer spending, food rose the most in monetary terms, up 129.4 yuan over 1986, up to 246.3 percent per capita. However, considered in terms of peasants' annual per capita consumption volume of main food products, there was little difference from 1986 (grain, pork, and animal oil per capita consumption volume was down 0.58 kg, 1.57 kg, and 0.59 kg, respectively). The higher figures were mainly because of price inflation. The Engels coefficient is high, showing no fall, showing that the daily consumption standards for China's peasants are still at the stage of dressing warmly and eating one's fill.

**F. "Housing Construction Boom" Trend Weaker, "Sentimental Practices" Still Serious.** In 1987, per capita sample household lodging outlay was 86.4 yuan. Although lodging was still in second place among living expenses, its percentage fell 0.5 percentage points. The new housing construction area per household was down 0.3 square meters from 1986.

In 1987, spending by sample households on gifts for relatives and friends was 156.1 yuan per household, 3.85 percent of gross annual household spending, up 0.1 percentage points over 1986, although the absolute figure rose 20.5 percent. This item of expenditure accounts for 12.4 percent of household operating expenses, down 0.4 percentage points from 1986. This item of expenditure accounts for 102 percent of spending on fixed assets of a productive nature, also down 36 percentage points from 1986. "Sentimental practices" are as serious as ever. They are still a current vogue.

#### X. Several Social Issues Worth Noting

**A. Rural Population Increase Rate Rising Too Fast, Illiterates and Semiliterates in Labor Force Up.** According to averaged calculations, in 1987 the villages surveyed had an average 1,501.2 people, of which, there were 751.3 males, or 50.05 percent, and 749.8 females, or 49.95 percent. This population mix is more or less the same as in 1986. However, the averaged total population of each village rose 14 percent over 1986, showing a relatively fast population increase rate trend. In 1987 each village surveyed averaged 367.5 households, up 9 percent from 1986. Averaged population per household fell from 4.38 persons in 1986 to 4.08 persons, down 6.9 percent. Agricultural households exhibited a shrinking tendency.

Concurrent with the overly fast rural population growth rate was a continued increase in the illiterate and semiliterate labor force. In 1987 there was an average of 760.9 laborers per village surveyed, up 1.8 percent over 1986, accounting for 50 percent of the rural population, up 0.2 percentage points over 1986. The population burden on the labor force was 100 percent, the same as last year. According to averaged calculations, each village surveyed had 50.2 persons in the labor force with higher middle school or better educations, accounting for 6.68 percent of the labor force, the relative figure was up 0.21 percentage points over 1986. Each village had 204.3 illiterate and semiliterate people, 27.21 percent of the labor force. The absolute figure was up 2 percent over 1986, and the relative figure up 0.04 percentage points. Looked at from these perspectives, rural labor's educational make up is developing in a bipolar manner in that participants in the labor force with more than a higher middle school education and the illiterate and semiliterate portions are simultaneously on the rise.

According to the sample household survey, in 1987 0.3 persons per household in the labor force, or 7.4 percent, had especially good technical training. Some 0.1 persons or 2.5 percent received specialized education or training, almost no change from 1986.

Although the educational level of the majority of peasants is relatively low, hopes for children to receive an education are nonetheless high. According to a survey of 10,000 peasant households, 66.6 percent of the households hoped their children would receive higher educations. Only 2.1 percent of the households felt it was okay for their children to have just a primary school education. The rest all hoped their children would get a secondary school education. Naturally, reality and wishes are two different things. Analyzing the causes, on the one hand, social conditions restrict the possibility of continuing education. On the other hand, economic growth urges school age young people to quit school and get a job so as to earn an income as soon as possible, thereby causing increasing numbers of illiterates and semiliterates.

**B. Relations Between Cadres and Masses Increasingly Tense.** The survey showed that due to various factors in recent years, relations between rural grass-level cadres and the masses are increasingly tense, and even rather critical in some places. A clear sign of this is the gradual growth of conflicts, continuous disputes, and sometimes even injuries. Among the reasons for the tense relations between cadres and masses are the misunderstanding of the masses about certain policies and a few unreasonable thrill seekers. However, considering what conflict denotes, following are the main aspects:

One, there is a direct relationship between the inability to reform and the appearance of certain chaotic and unruly phenomena. For example, on the one hand prices of agricultural means of production are unrestrained and there is hyperinflation. On the other hand, contract

procurement grain prices are too low, so the peasants feel that they suffer a loss in buying grain. In order to meet quotas, cadres have no choice but to accelerate household incomes by turns, often directly leading to conflicts.

Two, various matters cannot develop their potential. This is related to overly high and overly fast demands that are beyond the ability of the peasants to accept. For example, in the past year various kinds of apportionments rose, none fell. There are many big projects, approximately 40 to 50 kinds, and it costs a peasant 70 to 80 yuan per year. The conflict between apportionment and controlled apportionment frequently appears as conflicts between cadres and peasants.

Three, ideological and political work for the peasant masses has become slack because of weak rural grassroots-level party ideology and organization. Grassroots cadres lack essential education and training, making some among them unable either to carry on and develop the grand tradition of the mass line or to adapt to the new work methods of reform and opening to the outside world. Considering the peasant masses, there has been an increasing trend of only being concerned about individual and immediate benefits while neglecting overall and long-term benefits. This is another factor affecting cadre-peasant relations.

Four, certain cadres' ideology and behavior is corrupt. They are unfair at work. They are dishonest "bureaucrats." Eating and drinking have become their habits, inciting serious dissatisfaction and strong opposition by the peasant masses, and worsening relations with the masses.

We should see that the tension on certain issues between cadres and masses essentially is a reflection of friction between new and old systems in the villages. Therefore, to improve relations between the two requires overall coordination. The issue is also a matter of evolution of party style and social practices. Even moreso it is an issue of deepening reform.

**C. Rural Society's Public Security Worrisome.** The survey showed that in the past year rural society's public security situation was not as good as before. In some places the masses gamble. Feudal superstitions and other old tendencies are raising their heads. Stealing, robbery, rape, prostitution, swindling, homicide, and other criminal acts sometimes occur. In many places the peasants report that now "we can eat well, but cannot sleep well." They do not feel safe. Plus, some grassroots public security and judicial departments do not strictly carry out the law, causing "bad people to be without fear and making it is hard to protect the good." The vast majority of the peasants, and in particular some who became wealthier early on strongly want those at higher levels to make policies to create a good environment for the peasants, stressing commodity production so as to let the people be rich while severely attacking illegal production of shoddy commodities.

## **XI. Analysis of Certain Points of 1987 Pastoral Area Survey**

A follow-up survey of 13 pastoral villages (910 households) in the three provinces of Inner Mongolia, Xinjiang, and Qinghai was made in 1987 based on a 1986 survey. Some of the survey data will be enumerated as follows.

**A. Animal Production Increased Steadily, But Slowly.** The survey showed that comparing 1987 to 1986 in the 13 pastoral villages considered in the survey, animal production growth was relatively stable, certain economic indicators increased, but overall the growth rate was slow and the scale of increase was small.

1. Grassland area under contract increased. According to data on 910 herdsman's households, in 1987 average contracted grassland area per household was 2,496 mu, 59 mu more than in 1986, up 2.4 percent. However, due to yearend increases in the amount of livestock on hand per household, the contracted grassland area per head of livestock fell to 13.4 mu from 13.8 mu in 1986.

2. Original value of fixed assets of a productive nature increased. In 1987, the average original value on fixed assets of a productive nature per herdsman's household was 6,430 yuan, 857 yuan more than in 1986, up 15.3 percent. Among fixed production assets returned to herdsman's households for use, privately owned assets accounted for 95.3 percent, down 3.5 percentage points from 1986. The proportion contracted to collectives was 3.9 percent, fivefold the 1986 figure. Comparing the original values on new fixed assets of a productive nature per household in the 2 years, in 1987 the figure rose 216 yuan, up 68.6 percent.

3. Animal husbandry annual livestock volume up. In 1987 yearend annual livestock raising per household was 186 head, 9.5 more head than in 1986, up 5.4 percent. The per capita average was 31.5 head, 0.7 head more than in 1986, up 2.3 percent.

4. Improvement in livestock herd quality and mix, but productivity still fragile. Data on 13 pastoral villages showed that in 1987 each livestock herd per village had an average 4,437 head of superior and improved breeds, 236 more head than in 1986, up 5.6 percent. On the average, each village livestock herd had 7,909 basic female head with breeding potential, 412 more head than in 1986, up 5.5 percent. However, the proportion of basic female head among yearend livestock on hand was still notably low at only 46.3 percent, down 1.5 percentage points from 1986. Compared to countries where the livestock industry is advanced, this proportion is even more obviously low, proving that the reproduction potential of China's pastoral land is rather fragile and low.

5. Livestock death rates down, breeding survival rates greatly up. In 1987, the livestock death ratio per household was 6 percent, down 0.1 percentage points from 1986. The average annual breeding survival rate per household was 54.3 head, 1.7 head more than in 1986, up 3.2 percent.

6. Main livestock product output up, labor productivity and commodity rate up. In 1987, average beef and lamb production per herdsmen's household was 867.5 kg, 68.5 kg more than in 1986, up 8.6 percent. Labor productivity rose 7.3 percent; productivity of beef and lamb per herdsmen's household climbed to 361.5 kg in 1987 from 337 kg in 1986. Calculated in terms of productivity input, in 1987 the input level in the livestock industry was 1.36 kg of meat, 0.15 kg more than in 1986, 12.4 percent higher daily labor productivity. Per capita meat volume in 1987 rose to 147 kg from 139 kg in 1986, up 5.8 percent. In 1987 average meat sales per herdsmen's household were 567 kg, 78 kg more than in 1986, up 16 percent. The commodity rate was 65.4 percent, up 4.2 percentage points over 1986.

**B. Pastoral Incomes Greatly Increased, Mainly Due to Higher Livestock Product Prices.** The survey showed that compared to 1986, in 1987 gross and net incomes for herdsmen's households all increased relatively quite a lot. Gross family income in 1987 was 6,065 yuan per household, 1,164 yuan more than in 1986, up 23.8 percent. Of this figure, family production and operating types of income rose 1,158 yuan, up 26.1 percent. That is to say, 99.5 percent of a herdsmen's family's gross income increase came from the family's own operating income. Per capita pastoral net income in 1987 was 751.2 yuan, 160 yuan more than in 1986, up 27 percent. Considered in geographical terms, in Inner Mongolia the figure was 868.5 yuan, 253.5 yuan more than in 1986, up 41.2 percent; in Qinghai, 686.3 yuan, 181 yuan more than in 1986, up 35.8 percent; and in Xinjiang, 603.8 yuan, 97 yuan more than in 1986, up 19.1 percent. The comparison shows that the greatest increase in pastoral per capita net income was in Inner Mongolia.

The pastoral per capita net income increase rate is far beyond that of the production increase rate in the livestock industry. This was brought on by the greatly higher purchasing prices for main livestock products. Taking Inner Mongolia for example, the buying price of lamb's wool alone in the self-autonomous region floated upward 15 to 20 percent. In 1986 cashmere was less than 60 yuan per kg. In 1987 it abruptly shot up to 240 yuan per kg, quadrupling in price. The price factor is even greater if one includes herdsmen's own high selling prices. Therefore, we cannot overestimate herdsmen's per capita net income. We must analyze it correctly.

**C. Poor and "Dressing Warmly and Eating Their Fill Households" Continued To Drop, Proportion of Well-to-Do and Rich Households Up.** The survey showed that in 1987 the percentage of poor and "dressing warmly and eating their fill households" among total households

surveyed continued to drop, while the proportion of well-to-do and rich households continued to rise. Households with per capita net income less than 200 yuan accounted for 3.5 percent of the total number of households surveyed, 3.8 percentage points less than in 1986, and 15.7 percentage points less than in 1984. Households with per capita net incomes between 200 and 500 yuan accounted for 27.2 percent, down 11.9 percentage points from 1986, and down 23.6 percentage points from 1984. Households with per capita net incomes between 500 and 1,000 yuan accounted for 45.4 percent, up 5.6 percentage points from 1986, and up 23.49 percentage points from 1984. Households with per capita net incomes greater than 1,000 yuan accounted for 23.9 percent, up 10.6 percentage points from 1986, and up 19.2 percentage points from 1984.

In 1987, net annual family income for households with per capita incomes less than 200 yuan was 747.6 yuan, with per capita net annual income of 134.5 yuan. Compared to 1986, the household average was up 3.2 percent, and the per capita average was up 9.3 percent. Net annual family income for households with per capita incomes between 200 and 500 yuan was 2,177 yuan, with per capita net annual income of 345.5 yuan. Compared to 1986, the household average was down 1.9 percent, and the per capita average was down 2.4 percent. Net annual family income for households with per capita incomes between 500 and 1,000 yuan was 4,488 yuan, with per capita net annual income of 748 yuan. Compared to 1986, the household average was up 8.7 percent, and the per capita average was up 0.5 percent (mainly because this portion of household population increase was the greatest). Net annual family income for households with per capita incomes above 1,000 yuan was 7,486 yuan, with per capita net annual income of 1,527 yuan. Compared to 1986, the household average was up 14.8 percent, and the per capita average was up 5.4 percent.

In 1987 the net income of households that earned more than 1,000 yuan was 10 times the amount of households earning less than 200 yuan (9 times in 1986), 3.5 times the amount of households earning 200 to 500 yuan (2.9 times in 1986), and 1.67 times the amount of households earning 500 to 1,000 yuan (1.6 times in 1986).

**D. Herdsmen's Savings and Cash on Hand Up.** In 1987 the average cash income per herdsmen's household was 4,768.2 yuan, 1,073.4 yuan more than in 1986, up 29 percent. At year-end 1987, average savings surplus per herdsmen's household was 725.5 yuan, 360 yuan more than in the same period of 1986, up 98.5 percent. Average cash on hand per herdsmen's household was 1,049 yuan, 71.6 yuan more than in the same period of 1986, up 54.8 percent. Savings and cash on hand per household was 1,774.5 yuan, 731.6 yuan more than in the same period of 1986, up 70.2 percent.

**E. Movement of Labor Force to Secondary and Tertiary Industries Hindered, Industrial Mix Same.** According to data on 13 pastoral villages, in 1987 97.4 percent of the

total labor force was engaged in primary industry, up 2 percentage points from 1986. Only 2.6 percent of the labor force engaged in the secondary and tertiary sectors, down 2 percentage points from 1986, indicating a reverse current. Considered in terms of income mix, in 1987 primary industry income accounted for 93.8 percent of the gross income of all villages. Secondary and tertiary industries accounted for 6.2 percent, up 1.8 percentage points over 1986. Based on data from 910 herdsmen's households, in 1987 average primary sector income per family was 5,302 yuan, 1,042 yuan more than in 1986, up 24.5 percent. The percentage of family-run gross income fell from 96 percent in 1986 to 94.8 percent, down 1.2 percentage points. Average secondary sector income per family was 47 yuan, 28 yuan less than in 1986, down 37.2 percent. The percentage of family-run gross income fell from 1.7 percent in 1986 to 0.84 percent, down 0.86 percentage points. Average tertiary sector income per family was 245 yuan, 144 yuan more than in 1986, up 1.4-fold. The percentage of family-run gross income rose from 2.3 percent in 1986 to 4.4 percent, up 2.1 percentage points. From the herdsmen's industrial income mix it can be seen that development of the primary sector was stable, the secondary sector dropped, and the tertiary sector did develop, but very little in absolute terms. Considered overall, compared to 1986, the industrial mix of villages surveyed was still the same. Readjustment is still a long-term, tough task.

**F. Herdsmen's Consumption and Food Product Mix Did Not Change, but High-Quality Durables Increased Relatively a Lot.** Regarding consumption outlays in the life of herdsmen, comparing 1987 to 1986, the order of consumption items did not change. It was still the traditional line-up of food, clothing, lodging, and fuel. A slight change occurred in cultural life service outlay, which was up. In 1987 each household spent 313 yuan on this item, 131 yuan more than in 1986, up 72 percent.

Compared to 1986, in 1987 besides an average 15 kg less consumption of grain in the herdsmen's food mix, there was no change in average consumption volumes of other items like vegetables, vegetable oils, beef and lamb, eggs, milk, food sugar, and tea leaves. Unlike food consumption, in 1986 herdsmen's purchasing of high quality durables increased relatively much over 1985. Considering 100 average households, the number of bicycles rose from 39 to 50, up 28.2 percent; the number of TV's rose from 8 to 10, up 25 percent; the number of radios rose from 24 to 30, up 25 percent; and one washing machine was purchased.

#### **1988 Cultivated Land Area**

40060662c Beijing JINGJI CANKAO in Chinese  
2 Jul 89 p 1

[Summary] In 1988, the cultivated area was 1.436 billion mu, a decline of over 55 million mu from 1978.



**People's Spiritual 'Homelessness'**  
40050567 Beijing JINGJI ZHOUBAO [ECONOMICS  
WEEKLY] in Chinese 18 Jun 89 p 5

[Article by Yi Jinqing 5902 0193 0615: "On the Chinese People's Spiritual 'Homelessness'"]

[Text] A person always looks for a solid place for his own existence, which acts as a fountainhead for his feelings of security, dependability, familiarity, kindness, and warmth. All of this is linked with "home." In real life every person experiences a sense of "homelessness" at certain times. Spiritual "homelessness" represents profound spiritual shocks and sociopsychological crises.

The changes made by reform and opening up to the outside world have caused unprecedented, deep shocks to the spiritual world of the Chinese populace: clashes of ideals, crises in consciousness, disintegration of old cultural values, loss of balance in psychological mental states, and so forth. To varying degrees, all strata of society have experienced a sense of "homelessness." People have lost the feelings of dependability and reliability that they had in former days, and they live in a world filled with uneasiness, variations, and anxieties.

**Leading Cause of Spiritual "Homelessness": Ideological Fragmentation**

Because of the collision between the industrial civilization and the agricultural civilization and because of the fierce clashes in the commodity economy, the mind of every one of us is being filled with mutually conflicting values, ideals, beliefs, standards of behavior, and so forth. However, no matter what the value is, it cannot provide a spiritually solid fulcrum. We are now in an unprecedented "period of ideological fragmentation": the old ideological system is in crisis and is disintegrating, and there has not yet been established a theoretical value system to replace it. Under these circumstances, people who remember the past times feel that they and the new cultural values are incompatible, and that the old cultural values and ideology have lost their former efficacy. People who are geared to modern times and to the future feel that the new cultural values, although showing vitality and prospects, cannot yet be serviceable and that, as before, it will be difficult to shake off the yoke of the old cultural values and ideology.

The traditions of Chinese feudal culture are deep-rooted. Our innate ways of thinking and our mental attitudes from this culture have embraced a seriously distorted Marxism. Thus, the traditional culture and the distorted Marxism, in the spring tide of reform, have simultaneously fallen into crises. Although there are still many rational factors in China's traditional culture—among them some factors for which there is hope that in the end they will conform to the industrial cultural value system—from an overall viewpoint this traditional culture emphasizes ethics not science; moral character, not ability; and empirical models, not rational thought. The

function of smothering of individuality and the tradition of easily engendering corruption that this kind of wholism and ethical centrism possesses makes it incompatible with the commodity economy and the industrial civilization. Thus it is difficult for it to avoid disintegration. Our Marxism, which for a long time has been firmly entrenched, has lost sight of the essence of Marxist doctrine, namely, the revolutionary critical spirit of humanitarianism. It equates social development with the autonomous evolution of the iron laws of history, which does away with man's responsibility for history. The ideological trends of utilitarianism, technocracy, and humanitarianism, which are opened up and wrapped in the commodity economy, are the main connotation of the ideological and cultural value systems of Western industrial societies. These ideological trends, by developing the commodity economy and then converging into the process of modernization, play a definite role in smashing the bonds of our traditional system and traditional culture. However, they cannot directly provide for us a replacement cultural value system. On the one hand, from beginning to end we have not formed a pluralistic cultural value system and do not have the rational restrictions on the development of the commodity economy similar to those of the West's Protestant ethic. Therefore, utilitarianism decays into unlimited indulgence in material desires and the made pursuit of material interests, and humanitarianism is distorted into a one-sided emphasis on freedom without the restrictions of a responsibility for history. On the other hand, we are not at a point when Western industrial civilization is just unfolding, but are at a point where this industrial civilization has gone through its own crisis and is looking for a change to a new civilization (post-industrial civilization), while we are beginning the transition from an agricultural civilization to an industrial civilization. Therefore, we unavoidably face clashes between values, clashes between different levels of need, and clashes between historical scales.

**Source of the Spiritual "Homelessness": The Free Individual Has Not Yet Been Achieved**

It is undeniable that an ideological crisis in any society will cause its members to experience, to a certain degree, a sense of spiritual "homelessness." However, that the sense of "homelessness" in China now caused by the "ideological fragmentation" is so deep has an even deeper reason. After the disintegration of the Middle Ages, Western society went through a stage of the development of liberalism. But the Chinese populace has not truly been freed from the bonds of the traditional culture, the core of which is wholism and ethical centrism. Therefore, we lack self-consciousness and critical consciousness, and lack the sense of freedom and historical responsibility of the conscious individual.

With the lack of the free individual, it is often easy to establish a strict rule under which there is a single ideology that binds the individual's critical consciousness. This ideology, on the one hand, depends on the

instruments of rationalization making the political control of society rational and legal. On the other hand, by providing people with the "ultimate faith" or "ideal society," it makes changes in the status quo acceptable and tolerable, and provides dependability and security for people's existence. Therefore, it maintains the ideals, values, ethics, ways of thinking, standards of behavior, and images of people of a specific era, and thus provides a framework for people's existence. People do not have to think creatively, and they harbor a quasi-religious mental attitude of expecting the arrival of the ideal kingdom. This kind of consciousness that lacks freedom and this kind of individual that lacks a sense of historical responsibility often put themselves together in the ideology of the ruling position or completely identify themselves with another transcendental entity (force). When the ideology that people depend upon to be able to settle down and get on with their pursuits is in upheaval and is disintegrating, people cannot be overjoyed about a freedom they cannot get. Because of the dread of responsibility and the "evasion of freedom," a deep sense of "homelessness" is difficult to avoid.

With the fragmentation of ideology, it is impossible for one not to be disillusioned about the idealism preached in former days. The blurring of ideals and the perplexity about the future have made many people focus, without the slightest reservation, on their own values and needs: the mad pursuit to engage in business and acquire material things; indifference to education and disdain for "scholars"; short-term benefits and leading consumption.... In the apparently enriched life, there is actually no place to which a sense of inner emptiness and of spiritually having "no home to return to" does not penetrate. Some of our intellectuals do all they can to transcend this social attitude, but because Chinese intellectuals lack self-consciousness and have not formed an independent social force, their sense of social responsibility seems excessively heavy and their transcendence excessively difficult.

#### **Philosophy's Mission: Rebuild Our Spiritual Home**

It should be affirmed that the "ideological fragmentation" and the spiritual "homelessness" that it causes possess a positive significance, because they provide us with an ideology that transcends the quasi-religious ideology and provides a turning point for the free individual that possesses the dual connotation of self-consciousness and historical responsibility. Lacking the independent free individual, it is very difficult to form social mechanisms with political democracy and people's self-rule as their core. It is also very difficult to ensure that, in the reform, the new mechanisms brought about by changes do not, because of the bad general cultural background, experience new decays and new distortions. This does not reduce all problems to cultural problems, but rather emphasizes that our plight in reform in which it is very difficult to make strides has already profoundly revealed the overall nature of the course of social history. This spiritual "homelessness"

should make us clearly realize that reform does not mean just the growth of material riches and the improvement of material living conditions. While we emphasize the profound changes in the political and economic systems, we also should not for a single minute overlook our cultural rebuilding. One of the main connotations of cultural rebuilding is the rebuilding of the spiritual home. This is the unshirkable responsibility of philosophy and other theoretical workers.

As everyone knows, over the past several decades our philosophy has been very unfortunate, and from first to last it has not obtained an independent character. However, even if this is the case, it is no reason for evading self-reproach and self-criticism, because with its rational and scientific incarnation it has created an "objective mythology": on the one hand, it transforms communism from a process of opening up to the outside world to an ideal state in which its goals could be accomplished in one move at a certain historical moment; on the other hand, it changes the course of history from man's creative activity to a self-controlled evolution with specific "iron laws." As a result, this philosophy itself has decayed into a quasi-religious ideology. What is lamentable is that to this day many philosophers, as before, tenaciously defend this superstitious belief about objectivity, and, under this general premise, no matter how they emphasize man's nature as subject, it is only a literary embellishment. We should sober up and rebuild our spiritual home. This on no account means providing a new ideology or a new spiritual design for an ideal society, but rather means depending on the philosophy that originally displayed the function of prompting people to use their wisdom, namely, the critical consciousness of humanitarianism that was emphasized by Marx, thereby realistically cultivating the people's consciousness of self and consciousness of participating in history, and truly promoting the independent individual who possesses consciousness and a sense of historical responsibility. Otherwise, people who lack a consciousness of being the subject and a consciousness of taking part in history will very easily, from power, greatness, a certain belief, or so-called "iron laws," create a new "deity," with the result that, in the evolution of history, people will have to endure the suffering of a new ideological fragmentation.

First, philosophy should spur people to change the "ultimate faith" in a transcendental entity to an "ultimate concern" for the people's existence and the people's world itself. Since remote antiquity, people's rationality has tended to seek from nature god, rational concepts, matter, iron laws, and other entities that transcend man's power, on which man and history depend for settling down and getting on with one's pursuits, with the result that people have replaced one Utopia with another Utopia. The evolution of history up to this day clearly shows that in the historical domain there exist various objective factors conditioning man and certain tendencies in the development of history, but there are no laws of history given a priori. Historical laws are

nothing more than the unfolding of man's practical activity. Man must be the master of the course of history. He must strive to consciously create history, and at the same time he must bear the responsibility for the results of history. What man is concerned about should be man's existence, man's predicament, and man's destiny.

Next philosophy should itself change from being the answer to the "universal mystery" to being the self-conscious internal criticism of human society. Many ancient and modern sages and philosophers have searched for the complete, ultimate answers to the mysteries of history and the mysteries of theory, and have believed that they themselves have come up with the correct solutions for all time. The evolution of history, while expressing respect for their work, has also mercilessly ridiculed them. The people of today should clearly understand that man is an eternal Riddle of the Sphinx, which can be endlessly explained but which has no one answer that possesses ultimate meaning.

Because man himself transcends a given mode of existence, while he solved extant problems he also creates new problems. Therefore, no matter what kind of ready-made knowledge it is, it cannot be completely true. If philosophy wants to become the spirit of the age, it must on the one hand promote the individual's self-consciousness and internalize it for the individual's intrinsic quality; on the other hand, it must become an independent critical consciousness and an independent force of

humanitarianism, promoting the establishment of theoretical and cultural value systems. Only under these circumstances will history become the history of man, and not become, in a world filled with predicaments, an "evasion of freedom" and a case of "having no home to return to."

**Library of Patent Documents Opens to Public**  
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[Text] Beijing, July 1 (XINHUA) - China's National Library of Patent Documents opened to the public here today.

Located in the new 23-story office building of the Patent Office of China, the library has a usable floor area of 1,848 sq m and 1,995 bookshelves.

The library has a collection of more than 10 million patent documents from 16 countries including Britain, China, France, Japan and the United States, as well as the European Patent Convention and Patent Cooperation Treaty.

The library's Chinese division also holds patent announcements and documents from Taiwan province, and is planning to offer advice on China's patent law by computer.